The Basic Facts of Economics

A COMMON-SENSE PRIMER FOR ADVANCED STUDENTS

By LOUIS F. POST

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Accurate Observation and Clarity of Thought
are the Prime Requisites of Economic Study

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Table of Contents

	PAGE
Preface	vii
First Lesson—Economics	1
Second Lesson—Money	9
Third Lesson—Trade	17
Fourth Lesson—The Basic Facts	27
Fifth Lesson—The Productive Process	40
I. Human Factors	42
II. Natural Resource Factors	50
III. Artificial Objects	52
IV. Secondary Categories	56
1—Capital	56
2—Trade	60
3—Utility, Value, Money, Price, Banks	63
4—Balances of Trade	67
V. An Illustration of the Productive Process	70
Sixth Lesson—Distribution	74
I. Wages for Labor	75
II. Rent for Landownership	83
III. Trade	91
IV. Money	94
Seventh Lesson—Review	97
Questions for Self-Examination	101
Personal Acknowledgments	103

PREFACE

The purpose of this common-sense explanation of Economic phenomena is to disclose and emphasize those comprehensive and familiar primary facts which embody the myriads of secondary facts that are involved in Economic science. To avoid confusing those complicated details is to promote the clear thinking which every Economic problem demands, be the problem one of collegiate study, of political policy, or of business importance.

The following pages aim, therefore, at encouraging all thoughtful citizens so to classify the details of the general subject in their own minds as to enable them to avoid centering their mental vision upon Economic trees so intently that they cannot see the Economic forest as a whole. It aims also at discouraging the opposite inclination to view the Economic forest so exclusively as a whole that the Economic trees of which it is composed cannot be distinguished.

L. F. P.

The Basic Facts of Economics

A COMMON-SENSE PRIMER
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FIRST LESSON

ECONOMICS

ON the surface, Economics appears to be the science of making money.

This appearance is due, however, to a careless recognition and erroneous application of the fact that Economic accomplishments are measured by money standards and expressed in money terms.

When, for example, a builder builds, he builds to make money. Money measures the Economic extent of what he is doing, and money terms express its Economic desirability. They also express and measure his motive, which is the compensation he can command in the currents of trade.

A merchant makes money when he manages a profitable business.

So does a manufacturer.

Farmers make money when they sell their produce profitably. Nor only when they sell it, but also while they cultivate it; for every day's growth adds to the money measurement of a crop.

Wage-workers by the day, the week or month, and salary-workers by the year, also workers on commission or for percentages or for profits, make more or less money as working opportunities are more or less

plentiful, and wages or salaries or percentage totals and profit totals are consequently higher or lower.

Engineers, lawyers, physicians, architects, dentists, clergymen, teachers—all professional workers,—make money to the extent of the marketability of the services they offer.

And investors, do they not invest by money measurements and in money terms for the purpose of obtaining Economic incomes measured by money and expressed in terms of money?

Manifestly, the immediate object of everybody's activity in the field of Economics is to make money.

Does one desire food? By making money he gets food. Does one desire clothing? He gets it by making money. Does he wish for housing, furnishings, automobiles, railway or steamboat transportation, necessaries of any kind, luxuries of whatever variety, household service, professional service, legislative or judicial service, mechanical service, mercantile service, clerical service? By making money he gets them. Does one wish for slaves? If slavery be an institution of his time and place, he may have slaves by purchases with the money he makes. Should he be a slave himself, he may purchase his freedom with money if he can get it. Does land-ownership appeal to one? Let him make money and he can buy land. Whatever object the Economic field may offer for the satisfaction of human desires, that object is attainable by making money. In no other way can it be attained through Economic processes.

If gifts be cited as exceptions let the fact be noted that giving is not an Economic process. It lacks the element of exchange or trade. So, too, of theft in any of its forms. In genuine Economics there must be two gainers in every trade. There is no such science as Economics of the Forty Thieves variety.

Even in such seeming exceptions to the Economic importance of money as are offered by barter, in which no money passes and no money accounting is made, comparisons of the objects thus directly exchanged are nevertheless contemplated by the exchangers in terms of money. The owner of a horse that might sell for two hundred dollars, would not barter it for a horse that could sell for only one hundred—not unless he got "boot" enough to even up the money difference to his satisfaction. Nor would the boy with a two-dollar penknife "swap even" for a one-dollar jackknife. It is only when the two horses or the two knives seem to their respective owners to be approximately equal by money measurement that an "even swap" is conceivable.

Another seeming exception to the money-making characteristic of Economics depends upon individual isolation. That isolated individuals may gather food and improvise shelter and clothing without thinking of them in terms of money, is true enough; but the activities of persons thus isolated are not Economic exceptions, for the science of Economics is a social science. Although some Economic phases or phenomena may be picturesquely and aptly illustrated by reference to the experience, actual or imaginary, of isolated individuals like Robinson Crusoe on his island, states of human isolation are outside the limits of Economics.

Inasmuch, then, as the object of the human factor in the science of Economics is to make money, and as there can be no science of Economics without the human factor, Economics is comprehensively and accurately definable, on the surface, as the science of making money.

But making money in the Economic sense must be distinguished from narrower uses of the phrase. To manufacture coins legitimately, as at a mint, is to

"make money," but only in one Economic particular—only in the narrow mechanical sense in which weaving cloth is "making cloth." Like weaving cloth, it is but an item in the multitudinous phenomena of that money-making which superficially defines the science of Economics. The same observation is applicable to the occupations of engraving and of printing paper currency legitimately.

Illegitimate makings of either paper currency or coin, like all other forms of forgery, are not in any sense making money within the purview of Economic science. They are varieties of theft, and Economic science excludes theft of every kind, even legal kinds, such as slavery. This exclusion is not for moral reasons, it may be well to interject for the benefit of such advanced students of Economics as recoil from mixing moral principles with Economic science. It is due to the fact that exchange, or trade—an essential element in Economics,—is in theft utterly lacking.

In the Economic sense, making money is making it for all concerned in any particular process, and not for one or more of the parties at the expense of the others. No art of getting something for nothing can be within the scope of Economic science. One-sided methods of making money, whether frankly labeled "theft" or "gambling," or shrewdly disguised in spurious business ethics, are alien to Economic money-making. Within the domain of Economics no money-making transaction belongs unless it involves the making of money by all parties to the transaction.

To make money in that mutual sense is to augment the supply or the serviceableness of whatever commodities money terms may measure and express, and of the portions or shares of all who contribute to the augmentation.

In phrasing more complete than that of "making

money," Economics is the science of making money by earning it. Getting money without earning it is related to Economics only in a science-disturbing sense. It disturbs the normal Economic relations of effect to cause in the production and dissemination of humanly desirable objects. To realize the truth of that statement, the student need only momentarily conceive of theft as universal. Since universal theft as an Economic phenomenon would be utterly destructive of normal Economic relationships, of beneficial effects from normal causes, so must theft to any extent operate destructively to that extent. The only thinkable relation of theft to Economics is analogous to the relation of murder to the human race. That Economic study may comprise considerations of how to exclude stealing from Economic customs, does not go to prove that stealing is a factor in Economic science. It goes no farther than to prove that stealing may become an Economic parasite.

Even as a parasite, stealing could hardly have wormed its way to the Economic border line, much less across it, but for a disposition among advanced students to confuse normal Economic phenomena with arbitrary business customs.

"Business" might indeed be the nearest approach to a synonym for "Economics." It would be an exact synonym but for one variation. Whereas Economics relates to a comprehensive social organism which (notwithstanding "scientific" contentions to the contrary) is subject to natural laws of human association (sequences of cause and effect), Business is but a limited collection of individual interests or private organizations that are influenced and largely governed by arbitrary customs. These customs may or may not be in harmony with the normal relations of cause and effect in Economics. And as to each particular

business, it is operated, as accountants frankly admit, only "for the benefit of its proprietor." [1]

In some of its vulgar connotations Business might very well answer to the insolent definition that it consists in the adventures of sprightly gentlemen trying to sell nothing for something to other sprightly gentlemen who are trying to buy something for nothing. In so far, however, as that definition may be appropriate, it applies only to business abuses, not to Business as a possible synonym for Economics. It defines Business only as theft might define morality.

To be a closer synonym for Economics, Business must deserve a definition relating its customs to natural Economic law (a subject to be considered in a later Lesson) and extending its functions more completely to universal mutual service. Moreover, its definition must widen the Business concept so as to include all kinds of such service. Business can no more exclude from its realm particular Business specialties, though that be customary, than it can include the operations of "confidence men," as it is sometimes supposed to do. Its functions are not limited to commerce, nor to banking, nor to any other of those Business specialties to which careless speech, and sometimes snobbish thought, tend to narrow the meaning of the word.

Business is that function of social life which includes all serviceable specialties. Such terms as "commercial," "mercantile," "industrial," "agriculture," "labor," "the professions," and so on, denominate specializations or sections or subsidiary departments of Business, not Business as a whole. They are useful for subclassification; but, like all subclassifications, whether in Economics or in any other science, they

[1] The quotation is from "Modern Business", by Thomas W. Mitchell, Ph. D. New York: Alexander Hamilton Institute. 1918-1919.

are misleading when perverted into general terms for primary or fundamental or comprehensive categories. The term Business, like the term Economics, should include them all. Every kind of service necessitates busy-ness; and serviceable busy-ness, what is that but Business?

Considered comprehensively, then, and excluding parasitical adhesions, Business might be, as some advanced students of Economic phenomena suppose it to be, another name for Economics. In the scholastic sense, Economics is the more orthodox term; in the practical sense Business could better express the idea. Both terms might have practically the same meaning if considerately used. Honest Business, inclusive of all serviceable activities—service for service, to adopt a phrase in definition of Business—would be identical with Economics. Either, like the other, may be described superficially as the process of the science of making money.

Quite consistently with the foregoing survey, Economics has been described as the science of "mankind making a living." This definition, too, excludes the solitary life by limiting Economic science to cooperative mankind—in other words, to Economic association. It, too, identifies Economics and legitimate Business; for only through legitimate Business activities can cooperative mankind make a living. It, too, excludes theft in all its forms and guises; for so much of a living as some may make by any kind of theft, others must lose as victims of theft. It, too, brings Economics on the surface and Business on the surface within the definition of "the science of making money;" for only by means of money measurements in money terms does or can mankind in the mass make its living.

But making money is only a surface fact in Economics. It is but a means to the end. By no possi-

bility can it be rationally regarded as the ultimate object. The ultimate object of Economics is earning the living that money will buy. Both the object and the method lie below the surface of money-making. To Economics, making money is somewhat as book-keeping is to a commercial business. It is the surface expression of all underlying Economic phenomena.

Before those phenomena can be thoughtfully observed and studied, the relation to them of money-making must be keenly scrutinized and intelligently considered.

SECOND LESSON

MONEY

WHAT is Money? and what are its functions? Money is the medium of trade, its denominations the language.

Resting on the surface of Economic phenomena, Money and Money terms spread over the whole of the Economic area. All subsurface phenomena in Economics are measured in trade by Money units; the details of trading transactions are discussed and recorded in Money terms.

Money terms vary with localities. In the United States, Money talks in terms of "dollars;" in Great Britain in terms of "pounds sterling;" in France in terms of "francs;" in Germany of "marks;" elsewhere in local terms too numerous for other than encyclopedic description. But the value measurements that Money makes of commodities in the processes of trade are everywhere, at any given time, practically the same.

For lack of stability those measurements do vary from time to time with confusing effect. To compare them with measuring rods for length, breadth and thickness, it is as if yards, feet and inches were constantly contracting and expanding with reference not only to the magnitude of measurable objects but also to one another. Precisely in that way does Money in fact fluctuate. It always has, and unless scientifically standardized, it always will.

Nevertheless, whatever the fluctuations and local discrepancies of Money may be, it everywhere talks, when its language is translated, to the same general Economic effect at any given time. Stabilized, as it

might be, it would talk to the same general Economic effect everywhere and all the time.

What language is to thought, Money terms are to trade. The trading transactions of the whole world are effected by means of Money standards and in the language of universally interpretable Money terms.

Conventionally defined, Money consists of coins minted by governments from precious metals more or less alloyed. Those forms are supplemented, however, with subsidiary forms commonly known as "currency."

There is an Economic theory that metal coins alone are Money, paper currency being but promissory notes redeemable in coin. This theory is useful for testing Money media by coinage standards. But with reference to nearly if not all purposes of current trade, the intrinsic value of the Money piece is of slight Economic importance, or would be if Money were stabilized.

What counts in Economic measurements is Money denominations—Money language rather than Money pieces. For in the world-wide processes of trade, only a slight proportion of either metal coin or paper currency passes from hand to hand. Nearly all Money measurements are entered in books of account; and in these the debits and the credits so nearly offset one another, by and large, that the difference as a whole is too slight for consideration in passing down from the Money surface of Economics to the basic facts. A common and impressive exemplification is afforded by clearinghouse statistics. These show that the enormous banking transactions in Money terms which merge at the clearings daily, are balanced off with a trifling percentage of tangible Money.

Let the fact be emphasized then, that in defining Money as the medium of trade, Money terms rather

than Money forms are to be understood as the trading medium.

When a customer at a retail store buys a supply of groceries, his payment may be made in Money pieces, either metal or paper. Yet it may be made instead with a check drawn against his bank balance, or through a charge to his account in the retailer's books. If paid in Money pieces, either at the time of purchase or later, some if not all of those pieces will go to the storekeeper's bank and be credited to him in Money terms on the books of the bank. If the payment be made by check, the amount of the check will be entered in the storekeeper's bank account as if it were a payment in Money pieces instead of Money terms. Be such transactions as they may, however,—cash payments or check payments or drafts or promissory notes—tangible Money plays on the whole but a small part.

From purchases by customers at retail stores back to wholesalers; back of wholesalers to manufacturers of finished products and of unfinished products and of tools and of every other kind of merchantable object; back to land-owners for the sources of supply and the sites for production and delivery; back to farmers, to miners, to transportation agencies, to a vast though scattered army of wageworkers; through many a complicated series of accounts at stores, factories, mines, real-estate offices, railway and steamship offices, banks, clearinghouses—must we wend our way if we would investigate the processes of trade in detail. Yet only in slight degree do those processes involve the use of Money forms. Though coinage standards play their part, almost all trading transactions are made in Money terms and not with Money pieces.

In the process, then, of making a living, mankind trades commodities in terms of Money rather than in

its forms, doing so principally through financial accounts. Peering into the details of those accounts (as professional accountants and other business specialists must often do when examining the particulars of their respective specialties), however useful this may be within the limits of the specialization, is always futile and often confusing or misleading for purposes of Economic study or investigation as a whole. In Economics the purpose is not to understand the technical details of business specialties simply. It is chiefly to relate those details to one another by determining their respective Economic categories so that the whole subject may be reasoned about comprehensively.

Some business specialties may necessitate a knowledge in detail of the physical characteristics of sugar, for instance, or of cotton; but what an understanding of the science of Economics requires in such particulars is an intelligent grasp of the nature of sugar or cotton with reference to fundamental Economic categories—whether they are human, or natural, or artificial,—and to what extent, therefore, they are Economically related to all other commodities in the realm of trade. For into one or the other of those three categories, all the myriads of Economic details assemble themselves.

For purposes of Economic specialization, this assignment of details to categories is not enough; but without it no specialization is dependable. Some such identification of particular facts with reference to their fundamental differences or identities, is absolutely necessary for accurate observation of Economic phenomena and clearness of Economic thought; and are not accurate observation and clarity of thought the prime requisites of Economic study?

Not to make those identifications and differentia-

tions is to turn Economics into the hopeless mixture of "masses of particular unexplained facts" which John Morley deplored as characteristic of a certain type of Economic science. "Scraps and pickings of reality" are worse than useless in any study of Economic science unless harmoniously classified according to their respective fundamental characteristics.

This comment does not mean that Economic details are to be ignored except for classification, even by non-specialists. Far from that. It means that they are to be thoughtfully considered and accurately classified for further and comparative consideration. To illustrate: Mankind must be regarded as a class or category in Economics; but not according to personal or individual capabilities, idiosyncracies, or social, business, or legal status. To the business specialist, the personal qualities of an associate or assistant are important; but Economics as a comprehensive science, the science of all "mankind making a living," knows those special distinctions only in a secondary sense. It is concerned primarily with the individual man only as a unit in the human mass—only from the fact that he is in the human category and not in one or more other Economic categories. So of all Economic facts. To study Economic details without reference to Economic generalizations might be likened to studying an alphabet without reference to language, or numerals without reference to mathematics. Economic problems are not problems of how one individual may make a living at the expense of others. Such problems belong in the plundering pursuits. In Economics the basic problem is how all may make a living at the expense of none.

To that problem business details give no clew, unless the details be assigned to fundamental Economic categories. Piling up details without assigning them

is, as Henry James the Elder wisely expressed it, to "sink the truth in endless confusion." The last person in all the world from whom to get the basic facts of Economics is the business specialist, for he habitually limits his observations to his own specialty. Perhaps, however, a certain type of Economic teacher may be equally untrustworthy in that respect — the teacher who, though he imitates the physical scientist in devotion to details, disregards the physical scientist's fidelity to the relations of cause and effect.

On the Economic surface we have the category of Money. To the wageworker Money is the medium for trading the commodities he helps to produce for those he wishes to consume. To the merchant, however, or the manufacturer, or other Economic specializer, Money presents also a variety of minute details for expert study. The business accountant, for example, must familiarize himself with numerous details in connection with Money in its minute relationships to his specialty. He might very likely confuse facts Economically different, yet as a special business matter practically identical — the Money measurement of a natural mineral deposit, for instance, with the Money measurement of its artificial equipment. As an accountant in that specialty he would be right in doing so. Or, in slavery days, for another instance, an accountant might properly have classified the Money measurement of a human chattel with that of a domesticated horse or a constructed house. He also would have been right; for, as an accountant, he would have been dealing with a customary classification of private property; and not with Economic science comprehensively. It is doubtless specialty work of such kinds that has involved the science of Economics in so much confusion, especially among advanced stu-

dents who are prone to identify business conventionalities with Economic normalities.

As a science, Economics cannot make its categories according to conventional maladjustments. It must make them according to essential differences. These admit of no categorical identification of mineral deposits with mining machinery, or of human beings with domesticated animals or buildings. Such classifications are as absurd in Economics as identifying sun and earth would be in astronomy, or bone with brain in anatomy.

The science of Economics—that is to say, the science of Business in the broad social sense in contradistinction to the narrow private sense—neither requires nor permits such classifications as slaves with domesticated animals, or mining machinery with natural mineral deposits. It is obedient to the ancient but still vital maxim of philosophy that things which are essentially different must not be mixed nor things that are essentially the same be separated.

Essentially different things in Economics are indeed confused by Money, which knows no difference, except in degree of Money measurement, between slaves and cattle, or mineral deposits and mining machinery. As the medium of trade, Money must measure the values of everything tradable; and custom may make tradable objects—human beings, for instance,—which in the science of Economics are no more within the normal boundaries of trade than are transfers by theft.

Whether we think of Money as tangible coin, or only as the Money signs and symbols of account books, Money is not a basic fact in Economics. Mankind cannot live upon Money. It is neither eatable nor wearable. Nor is it shelter. Likewise of Money terms. Money is a secondary Economic factor — a representative of value, whereby the relative desira-

bility of commodities is measured and expressed in trade. It is therefore the comprehensive surface-fact of Economics beneath which the basic facts must be sought.

In other phrasing, Money is that secondary category in Economics which comprehends every kind and form of medium for trading commodities in the world-wide process that we descriptively characterize as "mankind making a living." Mankind being a basic Economic category, and the process of making a living being the Economic human necessity and purpose, Money can have but one comprehensive significance in Economics. Be it in the form of coin, or in the form of paper currency, or in the form of entries in books of account (where it appears only in name and arithmetical denominations), it is the universal medium and Economic measuring rod of exchanges or trade.

Whether one makes Money or not depends, as a rule, upon which side of his accounts in ledgers the Money balance appears at final accountings. It is Money in this sense that goes farthest to justify the superficial definition of Economics as the science of making money.

We only skim the surface of Economic phenomena, however, by coming to an understanding of the nature and the function of Money. Money is only one of the secondary categories which must be identified and properly related in any thoughtful study of Economic science. Below that financial surface are phenomena which Money merely measures and compares. The first of those underlying phenomena is Trade, for which Money is the medium and upon which our attention must next be concentrated.

THIRD LESSON

TRADE

TRADE, for which Money is the Economic medium and Money-terms the Economic language, consists superficially in interchanges of tangible commodities, but essentially in interchanges of human service.

Tangible commodities, with a semi-exception as to real estate, are produced by interchanges of human service from the very extreme of the primary production of those commodities to and including their final delivery for ultimate consumption. Real estate, too, is thus produced in so far as it consists of structures, of soil cultivation, of mining mechanisms, of excavations, or of any other kind of artificial alteration.

All commodities are subjects of Trade. Artificial commodities, such as depend upon human service for production, are not only subjects of Trade but are also its products. This is absolutely true of every kind of artificial commodity that is produced to completion, inclusive of final delivery, by means of Economic specializations—specializations in human service. The primary materials and the unfinished parts are gathered together and delivered, both in the intricate process and finally, by means of Trade.

A loaf of bread, for example, is brought to completion from harvest-field to bakery, and thence as a finished product, through many deliveries (including delivery to its ultimate consumer) by means of Trade. So is the implement with which it is cut at the consumer's table, and the plate on which it rests, the table at which it is served, the cloth which covers the table, the chair in which the consumer sits at the table, and the dining room floor beneath them all.

Of the vast variety of such commodities as loaves of bread and knives for cutting them and plates and tables and tablecloths by means of which they are served for ultimate consumption, very few if any at all of that variety of commodities—whether finished, as a loaf of bread on the consumer's table, or unfinished, as the growing grain or the flour of which the loaf is composed, or the fuel that bakes it, or the bricks or the metal of the baker's oven, or the finished oven itself—give distinctive expression to all the human services they embody.

That fact could be further illustrated with any artificial commodity in course of Trade. A hogshead of molasses on a wharf would answer the purpose. To thoughtless observation this commodity might seem to embody no other human service than work on a sugar plantation and by barrel-makers in a coopering shop. But if we think about it with penetration and clarity, we readily realize that it embodies the services also of lumbermen, of miners, of railway workers, of bankers, possibly of importers and mariners, probably of exporters and their assistants, certainly of draymen, of wharfmen, of merchants, of book-keepers and other accountants—a veritable host of specialists whose contributory services are not emphasized by the tangible commodity (a hogshead of molasses on a wharf) as are the services of plantation-hands and barrel-makers. Multitudes of human services in distracting variety are concealed in that familiar commodity from the vision of all but specialists; perhaps from their vision too in so far as the services are outside of their respective specialties. And if we were to follow that hogshead of molasses to its Economic destination, we might perceive many an additional human service embodied and concealed in commodities of Trade for which the material would have been supplied in part

by molasses from the hogshead and probably in part by the hogshead itself.

Trade is not a mere business custom, as is sometimes carelessly supposed. Only to the extent that they conform to natural Economic law can trading customs be socially beneficial or continue without developing social disaster.

Many customs do enter into Trade, even as habits enter into the life of individuals—some beneficial and some vicious, some in harmony with natural law and some defiant or evasive of it. But essentially Trade is a natural expression of Economic relationships. It is consequently as dependent upon conformity to natural laws as are the physical functions of individuals. Drawing inspiration continuously from natural human impulses, giving constant and increasing satisfaction to natural human needs, bringing natural human units ever closer into a natural social whole, contributing one of the two indispensable and fundamentally effective as well as obvious natural powers and facilities for the continuous and increasing production of human satisfactions, Trade is evidently as natural to the social whole as is breathing or eating to the individual. It must therefore be as completely subject to natural law.

By nature man is "a trading animal." So it has often been said, and the saying is manifestly true. There is, however, no implication here that man is an animal only. The suggestion is that, although an animal, he is more than an animal, and that Trade develops phenomena which go to prove it.

Of all animals, man only is within the jurisdiction of the natural Economic laws of Trade. What other animal than man could be correctly described, in a comprehensive sense, as "a trading animal"? Not only is this characteristic distinctive. Not only is it

peculiarly human. But also, and by force of natural Economic law — not commercial custom, but those natural sequences of effect from cause to which arbitrary commercial customs must yield or come to grief, —it enables mankind, the larger man, the social man, to multiply the Economic powers of each individual of the human race.

Primary among those natural laws of Trade is the thoroughly tested sequence alluded to above, that Trade multiplies productive power. It does so by inviting, requiring and developing that characteristic phenomenon of Trade which is commonly called "division of labor," but may be distinguished best as Economic specialization.[1] This phenomenon gives to the world, gives to it as a natural effect of Trade, a productive power per capita far and away beyond the productive power of any isolated individual.

By means of a vast variety of Economic specialties—such for illustration as farming, engineering, mining, lumbering and their respective and numerous subdivisions, through a vast variety of other Economic specialties, such as transporting and manufacturing and merchandizing, along with their respective and multitudinous subdivisions, all supplemented by such other Economic specialties as banking, teaching, preaching, adjudicating, writing, acting, and the fine arts—the necessaries for individual sustenance and the luxuries for individual enjoyment are produced and delivered in quantity, variety and perfection which, when calculated per capita, rise far above and extend

[1] The principle of Economic specialization could hardly be better illustrated than by the reply of an old-time compositor in a printing establishment who contemplated making a contract for the erection of a cottage home for himself and his family, when a friend suggested that he might save money by digging the cellar himself between working hours at the case. He replied: "I can dig a better cellar and more easily at the case with a composing-stick than on the spot with a pick and shovel."

far beyond all the possibilities of isolated individual life, far above and beyond the possibilities of community life in narrow environments.

Were there but one individual to be considered, the natural advantages of Trade would seem as fanciful as a fairy story. Were there only a small group, the natural advantages of Trade, though manifest, would be too few and too primitive to disclose its wondrous powers of production. But when millions of individuals cooperate, some serving all and all serving each through the intricacies of worldwide Trade, mankind is welded into an Economic unity, a gigantic oneness —a larger human being, "the social man" as this social organism is sometimes not inaptly called—an organism composed of individuals who give it vitality and whom in consequence it serves as a beneficent giant might serve a cooperating pigmy.

Involving the production of commodities by individual contributors of human service through an infinity of specializations, and their assignment to individuals by the intricate processes of service for service, Trade tends not only to increase the per capita supply of commodities, but also to effect their fair per capita assignment in proportions corresponding to the relative desirability of the numerous and various contributions of individual service to their production.

In describing Trade as consisting essentially of interchanges of human services, we are of course to be understood as including not only such services as are embodied in tangible commodities, but also personal service. Nor does it make any Economic difference whether the personal service be of the "servant" type or of the "professional" type.

"Professional" services, such as those of Economists, Engineers, Architects, Clergymen, Lawyers, Physicians and Teachers are in the Economic domain

of Trade. Not only are they exchanged for tangible commodities, but they contribute to the production of such commodities by conserving, and it may be by increasing the efficiency of more obvious producers. The Economist studies productive relationships for the purpose of securing harmonious industrial adjustments; and so vital is his function that righteous social relationships are imperiled, and righteous readjustments obstructed, if he mistakes chaos for order. The Engineer designs, plans and directs; and so important is his function that the work of hosts of producers depends upon it. If he mistakes, great structures may fall. The Architect is an Engineer in a special sense; if he makes mistakes, buildings may lack stability or beauty or both. The Lawyer may disentangle societary complications that would operate as a check upon production and Trade. The Clergyman may discourage obstructive conduct; the Physician may conserve the health of more direct producers so as to increase their efficiency; the Teacher may increase their efficiency by instruction. And so of personal services of the Personal Servant type. Whatever a Personal Servant may do for a commodity specialist which otherwise the specialist must do for himself at the cost of contributing less to the production of tangible commodities, is to that extent a contribution to the production of those commodities. Interchanges of human service, if the interchangers act in freedom, each getting from the channels of Trade the equivalent in service of the service he renders, are contributions to Economic production.

The relative desirability of human services rendered in promoting production, whether directly or indirectly, is commonly as well as commercially and Economically known as Value, which, as already ex-

plained, is expressed in Money terms and compared by Money measurements.

To receive a share in the continuous distribution of commodities through Trade is the human motive for all Economic activity, from leadership in Economic service to service for "wages."

A "wage-worker," for illustration, lends a hand—becomes "a hand," if you please,—at harvesting wheat. His compensation is to be, let us assume, his food and lodging during harvest and twenty dollars in Money at the end of his job. The work being done, his food and lodging having been meanwhile supplied to him, and the twenty dollars in Money having been duly paid him, what has been the Economic nature of his transaction? Has not this "harvest hand" exchanged his contribution of service to the production of wheat, for his living while helping to produce it and for a twenty-dollar measurement of any commodity or commodities he may wish to draw from the channels of Trade?

Assume now that he draws from those channels a pair of shoes, a hat and other commodities at the village store, including, perhaps, some tobacco for his pipe and a bit of candy for a little friend. As matter of Economics, then, what has he done but Trade his service at harvesting for his living while at work and some service-produced commodities for still further satisfying his desires?

And the Economic leader in that connection, the farmer who hired the "harvest hand," what has been his part in the transaction? In the last analysis has he not for harvest service traded food, house accommodations, household service, and his Money title to twenty dollars' worth of any commodity or commodities that may be flowing through the channels of Trade—a title for which he presumably has given, or

through debit and credit adjustments must in the future give, his own service or the service of others which he may naturally and justly or only customarily and unjustly command as his own?

When an employer in any branch of Economics pays an employee "wages" or "salary" or other compensation for service, he buys his employee's service by an interchange, through Trade, of human service for human service.

Nor are interchanges of service limited to employers and employees.

The point of final interchange is almost invariably like the illustrative instance of the "harvest hand" at a retail store. Through the processes of Trade, myriads of commodities for the satisfaction of human wants, commodities produced by human service to the point of delivery to ultimate consumers, flow to ultimate consumers out of retail stores. These depots for final delivery in Trade are the customary terminals of production, where certifications of service in terms of Money are usually exchanged for products of service in the form of commodities.

Although such exchanges, like other exchanges throughout the processes of Trade, are made in Money terms and by Money measurements, these terms and measurements testify, as explained in the preceding Lesson, only to the relative values which govern the exchangeable relations of any commodity or commodities with any other commodity or commodities.

Curiously enough, Economic students who ignore "value levels" readily recognize "price levels." But what else are "price levels" than "value levels" expressed in Money terms? If a hammer will exchange for a chisel in the processes of Trade, they are of equal value—not price, but value. If the Money price of one is two dollars and that of the other is also two

dollars, they are of equal price as well as equal value. And except as Money may vary in purchasing power through lack of stabilization, or commodities may vary in relative desirability or industrial cost, the price level and the value level tend to rise and fall together. That is to say, the essential consideration is one of relative values of commodities (which is determined by difficulties of production and delivery), but the superficial consideration is the purchasing power of Money, by which those relative values are more or less accurately measured and expressed in price lists.

Values thus expressed rise and fall. They do so in terms of Price when measured by Money; they do so in the essentials of Value when measured by comparisons of commodities. As a rule, however, Money-prices are fair guides to Commodity values. Commodity values rise and fall according to cost of production, inclusive of delivery; and in so far as Money is stable, the rise and fall in prices is evidence of variations in production cost.

The relative rise and fall in Value, be it measured by prices in Money or otherwise, is so common a phenomenon of Trade that critics might be pardoned for denying a Value level.

Nevertheless there is such a level. It may be illustrated by "sea level." We readily understand and confidently base important physical calculations upon the assumption of a constantly level sea. Yet there is no such thing. Waves rise above the surface of the sea at their crest and fall below it in their hollows. Tides contribute other variations. So with Value in Trade. Literally a level of Value is unknown. Values continually rise and fall, like the waves and the tides of the sea. Yet there is as to Value a "mean

level." Such a level or tendency may be found in the relation of service-cost to consumption-desirability.

Though we measure service-value by Money, though Money fluctuates as a Value-measuring device, though some individual services fall in product value relatively to the productive power of service, though some individual services may increase in Value for one reason or another, there is nevertheless a Value level in Trade which tends constantly to maintain an equilibrium between service-value and service-utility. Money-measured Value and Money standards of Value may rise above or fall below the service-cost of produced commodities. Nevertheless, service-cost in commodities is the determining fact—the Value level in Trade. Measured and expressed by Money, that Value level is the Price level.

Trade phenomena, to which this Lesson has been devoted, though they lead down to the Basic Facts, the foundation facts, of Economics, do not themselves, either wholly or in any of their details, belong in the Basic Fact region. Though nearer to the Basic Facts of Economics than the phenomena of Money, our consideration of which immediately preceded our consideration of Trade, the phenomena of Trade are one layer above the Basic Facts toward which we have been delving down from the Economic surface, Money, and through the subsurface, Trade. To the Basic Facts of Economics our next Lesson will be devoted.

FOURTH LESSON

THE BASIC FACTS

THE purpose of the preceding Lessons has been to pierce through the surface and the immediate subsurface of Economics down to the Basic Facts. On the surface, as we have seen, Economics appears to be the science of making Money, whereas Money is in fact only the medium and measure of Value in Trade. We have further seen that the immediate subsurface, Trade, consists apparently in exchanges of tangible commodities but essentially in interchanges of human service. We are now to inspect the Basic Facts.

The Basic Facts of Economics consist of natural groupings or categories of all the myriads of minor facts with which the science of Economics is concerned. Of those categories there are exactly three. By no possibility can there be more; by no possibility can there be less. Natural law fixes the number.

The first Basic Fact—not first in order of creation, but first in our perceptions of Economic necessity—is Man. Without Man, Economics could have neither incentive nor power, neither cause nor effect.

The second Basic Fact is Natural Resources, without which Man could not exist. Natural Resources comprise the surface of our globe, together with all natural objects external to Man and in their natural condition, upon the surface, under the surface, and above the surface, including the air surrounding the surface.

Through applications of the energies of the first to the offerings of the second, Artificial Objects are produced, and these constitute the third of the three.

To one or another of those three natural categories

every variety of detail that may be involved in any Economic problem must be assigned. Not so to assign those details to their appropriate categories is to invite confusion of thought and to risk arriving at false and socially dangerous conclusions.

The Economic student who mixes such Natural Resources as building sites with such Artificial Objects as buildings, or natural deposits of minerals with mining machinery, or natural surfaces with railway roadbeds and tracks and equipment, or farming tracts with farm improvements, or human slaves with real estate or stocks of merchandize or factory mechanisms, makes an inexcusable blunder.

Such mixtures may be unobjectionable in accountings of the assets of a private business for private purposes; but in general Economics they are perplexing and misleading. In this comprehensive social science every Economic detail must be classified in harmony with the three Basic Facts—Man, Natural Resources and Artificial Objects,—or confused thinking will result. To make those classifications, however, is to lay a firm foundation for correctly estimating Economic phenomena of all possible kinds and in all their relations.

The human factor, Man—an impossibility without Natural Resources in the comprehensive sense of that term,—applies his energies of mind and body to the Natural Resources of our terrestrial globe and its enveloping atmospheres, thereby producing and for his satisfaction consequently consuming every variety of Artificial object within the range of his Economic desires and his Economic capabilities. This is true of Man and of Man only.

Lower animals do not produce Artificial Objects. Do they cultivate? No. Do they design or invent? No. Do they Trade? No. Do they in any way im-

prove? No. As was eloquently said by a distinguished Economist of the last century, "the sea-gull of the English Channel who poises himself above the swift steamer, wants no better food or lodging than the gulls who circled round as the keels of Caesar's galleys first grated on a British beach."

If wild birds make nests and wild animals make burrows or build dams, and wild bees make honey, so do wild berry bushes grow berries and wild apple trees bear apples; yet who would think of classifying wild fruits as Artificial Objects? Manifestly, uncultivated fruit is as truly in the category of Natural Resources as is the wild tree or bush that bears it. And how do wild animals and their characteristic products differ in that respect from wild fruit bushes and wild fruit trees? Evidently in no wise at all. Their products of nest and burrow and water-dam and all the rest, like the leafing and the fruitage of the tree and the bush, are natural objects. They are not artificial. An Artificial Object is a product of human invention and construction. For every purpose of Economic classification, wild animals, like wild trees and wild bushes and wild Nature in all its varieties, belong in the category of Natural Resources. When the wild trees or the wild bushes are cultivated, or the wild animals are domesticated, they pass into the category—as manifestly as buildings and farm produce do—of Artificial Objects drawn forth from and upon Natural Resources by Man.

If now we unravel the countless and confusing Economic phenomena of our world by assigning each miscellaneous fact as it faces us to its natural place in the three categories or Basic Facts, and then observe with common-sense acuteness the natural laws of cause and effect that govern the mutual relations of those Basic Facts, we put ourselves in position to solve

correctly every Economic problem that can challenge solution. Not to do so is to invite confusion of thought and false conclusions. Those Basic Facts are the "Big Three" of the Economic universe.

Hints at all this came to us in passing through our Lesson on Economics, our Lesson on Money, and our Lesson on Trade. For confirmation of those hints and of the generalizations of the present Lesson, let us with Money in hand and Trade in mind visit one of the Trade terminals which are known in everyday speech as "retail stores."

What do we see at this "store" but a complex aggregation and combination, in multitudinous and confusing variety, of the services of Man in producing Artificial Objects from and upon Natural Resources to ultimate consumers through channels of Trade and in terms of Money?

The number of those products here assembled, together with the complexity of the infinite detail involved in their production, would be bewildering were we to plunge into the ocean of particular facts unequipped with a clear mental grasp of the Basic Facts and their mutual Economic relations. For illustration, here is a barrel of potatoes to which the store clerk calls our attention with a view to delivering it to us in Trade for some of our Money.

Now, what could be simpler at first thought than a barrel of potatoes as an Economic fact? A farmer has "raised" the potatoes and brought them to market, where we may have them for their Money price. But what of the farmer's "help"? and the plough with which he prepared the ground? the hoe or more modern implement he used in the processes of cultivation and of reaping the crop the horses or the motor he ploughed with? the building in which he stored the crop before marketing it? the wagon he carried it to

market in? the transportation equipment with which it was carried from a larger market place to this retail store? the factories in which the barrel was promoted from lumber to its present condition of usefulness? the factories and stores and railroads and ships and wagons and tools? the banks and bookkeepers and truckmen? All such factors must be taken into account, with many more, in their vast and various and intricate relationships, if we are to know the Economic history and to solve the Economic problems regarding even so familiar an Artificial Object as a barrel of potatoes on sale at a retail store.

Every one of those Economic details can be considered intelligently, readily and accurately, through the medium of the three Basic Facts, into one or another of which must fall, not only that barrel of potatoes and all the details of its production, but also the entire stock of the store, and of all other stores, and every Economic agency back of them to the very beginning of each productive process through which they have passed. All Economic details, the familiar and the unfamiliar, the obvious and the mysterious, the known and the unknown, generalize with precision into the three Basic Facts of Economics—Artificial Objects, Natural Resources and Man.

Natural Resources are the source and the indispensable condition at every stage, from beginning to end, in the production of every kind of satisfaction for human wants. Man is the active agent at all stages. Artificial Objects constitute the category into which each result generalizes at each stage of production. From Economic particulars we derive knowledge of Economic detail and skill in applying that knowledge; but only from their correct generalization can we derive Economic wisdom.

Thinking *about* the three Basic Facts is necessary

to an understanding of their mutual relations; thinking *from* them is necessary to an understanding of the mutual relations of their constituent parts. Reversely, we must think from Man to Man-power of numerous kinds, both mental and physical; from Natural Resources to soil, minerals, air, water, building sites, and so on; from Artificial Objects to houses, tools, machinery, food, clothing, et cetera.

In another form of statement, the Economic student must know and understand the comprehensive categories or Basic Facts in order to grasp the Why of Economic adjustments, the natural relationship of Economic effects and causes. To understand the How, he must also know and understand the little facts of Economic specialization, such as the mutual relations of the details which go to make up those wholes—the particular facts, for instance, of agriculture or architecture or engineering or merchandizing or manufacturing or banking or professional service,—as well as their three comprehensive classifications or Basic Facts—Man, Natural Resources and Artificial Objects.

One of the deplorable tendencies in Economic study comes from a disposition among advanced students to think exclusively within such narrow fields as banking, manufacturing, transportation, merchandizing, the cotton trade, the silk industry or agriculture. All trustworthy Economic thinking must be from fundamentals—from Natural Resources, Man and Artificial Objects—to the minute details of the respective Economic specializations. All Economic specializations, to the uttermost of their Economic minuteness, are subject fundamentally and in their mutual relations to the natural Economic laws that govern the interrelationship of the three Basic Facts—Artificial Objects, Man and Natural Resources.

That barrel of potatoes in the retail store may serve for an example.

The barrel itself, an Artificial Object, was produced by Man from antecedent Artificial Objects—staves and hoops. The staves and the hoops were produced by Man from preceding Artificial Objects—lumber and iron. The lumber and the iron had come from trees felled and ores extracted by Man; the trees were Natural Resources, unless cultivated by Man, in which case they were Artificial Objects produced from and upon Natural Resources (the earth) and descended from trees which in their earlier days were themselves Natural Resources. The iron ore was an Artificial Object produced by Man from Natural Resources known as ore deposits. So the barrel holding those potatoes at that retail store proves to be throughout its whole Economic history nothing but a combination of many kinds of Artificial Objects every one of which has been produced and all of which have been combined by Man from and upon and within the Natural Resources of earth and air and light and heat and electricity and other natural characteristics of the planet that Man inhabits.

So, also, of the potatoes in the barrel.

And like that barrel and those potatoes, the retail store in which we find them was itself produced through many Economic specializations and many stages of industrial progress, each of which, from the extraction of iron from natural mineral deposits and the taking of timber from natural forests, was a production by Man of Artificial Objects from and upon and within the sphere of Natural Resources down to the placement of that artificial structure, the retail store, upon its Natural-Resource site at an advantageous point for delivering finished products to ultimate consumers.

As to that barrel of potatoes and that retail store upon the floor of which it rests, so of all Economic

phenomena. They belong respectively, according to their respective Economic characteristics and pursuant to natural law, in one or another of the three categories or Basic Facts which we have respectively identified as Natural Resources, Man, and Artificial Objects.

Pursuant to natural law? Certainly. But where do we get any natural law in Economics? To quote a sarcastic attempt at refutation, "Do we pick it off the trees?" Yes, some of it we pick off the trees. Who can intelligently observe the growth and fruitage of a tree without recognizing operations of natural law? How do trees grow except by operation of natural law? And except by operation of natural law, how do men's bodies grow? Is it enough to answer that the growth of the body is a problem of physical science, which is subject to natural law, whereas Economic science contemplates a lawless lot of phenomena? Or men's minds, do they unfold without the aid of any natural laws of human mentality? And what of social or mass mentality—shall we call it "public opinion" or "herd instinct"?—how does that phenomenon originate and develop except through processes of natural law?

As with a tree, so with the whole physical universe, inclusive of the human body. And as with the human body, the physical body and the social mass, so with the mental equipment. Must not all, for their very existence and for their development also, be dependent upon and in all their activities responsive to natural law in one or another of its jurisdictions—responsive happily or unhappily according to their degree of conformity or defiance, of devotion or indifference? [1]

[1] For an extended and impressive discussion of the application of natural law to Economics, see "Natural Law in Social Life", by W. R. Lester, M. A., published by The United Committee for the Taxation of Land Values, 11 Tothill Street, London, S. W. 1, England. For a specific application to the coal industry, see minority report on the bituminous coal problem by Warren S. Blauvelt (formerly of Terre Haute, Ind., latterly of Troy, N. Y.) in the Proceedings of the National [American] Conference on Social Work at its fifty-third session in 1926.

Individual activities, whether physical or mental, if that discrimination be permitted, assuredly work out well or ill as they harmonize or run counter to natural law. This must be true also of social activities. The choices made by human beings, and the influences which affect their choices, operate to produce harmony or discord in Economic relationships in so far as they harmonize or are in conflict with natural Economic law.

Economics being the science of a certain range of social activities, "the science of mankind making a living," as it has been aptly called—a science, and not a mere collection of odds and ends of information —the same conclusions must be true of the science of Economics as of the physical sciences. Both are scientific in so far and only in so far as they are within range of natural law.

It is, indeed, a common contention in scholastic Economic circles that the science of Economics is not governed by natural law as the physical sciences are. The answer would seem to be conclusive, in so far as that contention is true, that Economics cannot be a science at all.

Nor are some of the Economics of modern universities strictly scientific. They disclose a tendency to confuse business customs with Economic science as if they were identical. This characteristic of those "business colleges" of a previous generation seems to have charmed the "scientific" Economists of some of our universities. But Economic science and business customs or arts are not identical. Business arts and customs which conflict with natural Economic law are as certain to culminate in disaster as is the life of a man who, approaching a wide and deep chasm, attempts to walk across it without a bridge. Such a bridge cannot be created, it must be produced in ac-

cordance with natural physical law. The same is true of Economic processes. As physical science cannot create, but can only discover and apply natural physical laws, neither can Economics create, but must be content to discover and apply natural Economic laws.

The contention that Economics is not subject to natural law may be fairly regarded as a lineal descendant of the social doctrine that there are no natural rights in human relationships, but that human rights are only conventional. This is the lawless and vicious doctrine upon which slavery and every other form of social larceny have rested, from that form which held the Forty Thieves together, to that modern policy of "get what you can and keep what you get."

Economists who can offer any other effective process for satisfying Economic desires than by the production of Artificial Objects from and upon Natural Resources and in accordance with natural laws, Economic as well as physical, would thereby kill every inference that may be correctly drawn from any contention in these pages. But until that miracle has been performed it behooves all advanced students of Economics to think, and to think clearly, without active prejudice or indolent confusion, upon the natural phenomena of the Economic realm. Give to those phenomena whatever name you please—my name for them is "natural law"—the fact nevertheless remains, a Basic Fact in Economics, that no Man nor any number of Men can produce Artificial Objects to or from any stage of the productive process except from and upon Natural Resources.

Natural law in Economics is not comparable with "common law" in the sense of a coordination and sanctioning of social customs. Nor is it "business law" in the sense of a clutter of commercial customs. And of course it is not "statutory law" in the sense of com-

mands from political authorities to obedient citizens. In Economic science, as in every other science or art worthy the name, natural law uniformly and inexorably governs the relationship of cause and effect.

Browning struck a key-note when in his "Abt Vogler" he wrote of the "manifold music" evolved by bidding the organ obey, that—

> . . . "effect proceeds from cause,
> Ye know why the forms are fair, ye hear how the tale is told;
> It is all triumphant art, *but art in obedience to laws.*"

If any Economic experiment "works" (as a pragmatist might say of it), why does it work? What other explanation can there be than that it "works" because it is a correct adaptation of cause to effect in obedience to mandates of natural Economic law.

Consumption of food is a natural effect of the natural necessity for food—a natural law. Production of food is a natural effect of the natural need of food for consumption—a natural law. Resort to Natural Resources as the sole source and foundation from and upon which to produce food is a natural effect caused by the natural need for food—a natural law.

Nor can natural law be limited to the individual man any more than it is to trees. Associated man also is governed by it. It is the latter relation that distinguishes it as Economic. From the natural desire of individual man for production from and upon Natural Resources, social Trade develops, not arbitrarily but as a natural consequence of a related natural cause. Let thoughtless students and professors of Economics who deny natural Economic law—the normal conditions of cause and effect that govern cooperative mankind in making a living—explain Economic phenomena, if they can, without reference to Economic cause and effect, or Economic cause and effect with natural Economic law left out.

Natural Economic law might, perhaps, be given another and more accurately descriptive name. Yet its existence and its potency for good results or bad, according to obedience or indifference to it, are beyond all possibility of denial by any Economic student who knows what it means and who, thinking with clarity, speaks with a sense of responsibility. Its name, "natural law," is simply a common and convenient term, whether truly descriptive or not, for indicating the undeniable fact that in Economics as in every other science, identical effects invariably proceed from identical causes.

Most plainly and incontestably is that observation true with reference to the three Basic Facts in Economics. That they are no haphazard phenomena in their mutual relations or otherwise must be inferred from universal experience. Artificial Objects for human use are produced by Man, and only by Man, from and upon and only from and upon Natural Resources. Man does not create. He produces, which means that he adapts. And in his processes of adaptation or production, he succeeds to the degree that he conforms to natural conditions over which he has no control except by conformity. Call those conditions by whatever name we may, they have all the characteristics of natural law, or natural orderliness, over which Man has no other powers of command than by adaptation of natural means to artificial ends. Natural law would therefore seem to be the most appropriate name—law beyond the control of Man except by his adaptation of natural resources to artificial effects.

Questions of natural law or no natural law in Economics aside, however, we are confronted by facts which common-sense minds cannot escape. Even if there be no natural laws of Economics—a contention that would seem to demand more imagination than

thought,—it is none the less a fact that Artificial Objects never have been produced, are not produced now, and in all probability never will be produced on our revolving globe, except by Man and from and upon Natural Resources. Also it is a fact, whether subject to Natural Law or not, that Man cannot live without Artificial Objects, nor without Natural Resources from and upon which to produce and consume those objects. These facts recognized, disputes over the existence or non-existence of natural law in economics are mere mental gymnastics which may be ignored without prejudice to the essentials of any contention in these pages.

The process of human adaptation of Natural Resources to Artificial effects—or, to use the Economic term, the process of Production,—no matter how complex, is continuous from original conceptions in the human mind to completion and delivery of products to ultimate consumers by the human mind and hand.

FIFTH LESSON

THE PRODUCTIVE PROCESS

THE Productive Process in Economics is a complicated sequence of activities in the bringing forth by Man, from and upon Natural Resources, of Artificial Objects. It begins with initiatory adaptations of natural raw materials; it ends with deliveries of finished products to ultimate consumers, in accordance with their demands.

Finished products may be catalogued in general terms as food, clothing, dwellings, luxuries and other Artificial Objects which have come into the possession of ultimate consumers for the satisfaction of their wants. Drawn from Natural Resources, these products return to Natural Resources in the course of their consumption, though not necessarily to the identical places from which they were drawn.

Their substance is indestructible. Man can no more destroy an atom of the physical universe than he can create one. His powers in Consumption as in Production are limited to *altering* Natural Resources in location and form. The essential Economic difference between Production and Consumption is that Production alters natural objects so as to adapt them to the satisfaction of human wants, whereas Consumption alters Artificial Objects in the process of satisfying those wants. Production is the drawing forth by Man of Artificial Objects from and upon Natural Resources; Consumption is the passing back by Man of Artificial Objects to Natural Resources.

With the processes of Consumption the science of Economics has nothing to do. Its functions end with delivery to final consumers. Whenever Consumption

is declared to be a phase of Economics, thoughtful consideration will ascribe the declaration, not to the processes of Consumption but to the preceding demand for Artificial Objects to consume.

The human demand for Artificial Objects to consume is the incentive to the Productive Process. Production, therefore, and demand for Consumption, are Economic correlatives, Production having Consumption for its object, demand for Consumption depending upon Production for satisfaction. Without Production by Man, there could be no Artificial Objects to consume; without Consumption by Man, there would be no incentive to produce.

Production must, of course, precede Consumption. No Artificial Object can be consumed before it has been produced. But demand for Consumption as certainly precedes Production. An opposite inference might be drawn from the fact that particular Artificial Objects are often produced in advance of specific demand for them. In fact, however, the output is always in response to demand, either actual or probable —like the outflow from a reservoir of water which follows the inflow but to which there would be no inflow were it not for anticipated demand. Production in advance of actual demand indicates nothing more than that the producers are confident that such demand exists in embryo. If they err, the Products have no market; if they have guessed aright, the volume of Products increases to meet the demand. By and large, then, demand for Consumption regulates Production; or, in Economic phrasing, supply in Production is determined by demand for Consumption.

Being continuous, the human demand for Artificial Objects to consume stimulates continuous Production; being progressive, it promotes improvement in Productive methods and accomplishments.

I. Human Factors

The Productive Process is accomplished by Man's exertions, mental and physical, each of those forms of exertion being dependent upon the other.

In that connection Man is governed by natural law, a manifest law of human nature. It resembles the familiar law of external nature in obedience to which physical force advances along the line of least resistance. The former, the Economic law, may be concisely, accurately and indisputably expressed in these terms: Men seek to satisfy their Economic desires with the least exertion.

The validity of that generalization is sometimes questioned on the basis of the fact that men often seek to satisfy their desires with excessive exertion. But is that true? Is it not at best only apparently true? Although for the purpose of satisfying a desire for something, one were to walk three miles when he might reach his goal and satisfy his desire by a short-cut only one mile long, but which is unknown to him or is haunted by a dreadful ghost or infested with predatory men or savage animals, or so reputed to be, he would nevertheless be seeking to satisfy his desire with the least exertion. To risk contact with a ghost or a robber or savage beasts would add much more to his exertion mental and physical, than a walk of three miles for the satisfaction of a desire that might be satisfied by a walk of one. The statement that men seek to satisfy their desires with least exertion is to be read with the interpretation that they do so with the least known and the least dreaded exertion; also that the desire may include effort for the sake of effort, for effort desired as in exercise for health's sake or exertion for the sake of play.

The Economic principle that men seek to satisfy their desires with least exertion does not imply that

all men, or any of them know what the least possible exertion is. It is least only in their more or less biased or ignorant judgment. There is no contention that they do satisfy their desires with least exertion. The contention is that they naturally seek to do so. Critics of this natural law of Economics should have a care lest they fail to "see the forest for the trees."

Like the principle in physics to which it is analogous this law of Economics involves the element of least resistance. As in physics the line of least resistance may not be a straight line, although that is its tendency, so in Economics it may not be a direct line. Nor may it be the same line from generation to generation. Precisely as in physics physical obstacles may divert a line from direct to crooked, so in Economics such obstacles as customs, habits, superstitions and ignorance may cause analogous diversions. But as the physical line of least resistance, though not always the shortest by foot rule measurement, is the shortest considering obstacles, so the Economic line of least exertion is as straight as habit, custom, superstition, advice, ignorance, and other obstacles permit.

Let the principle be tested by Money measurements. Will any sane man pay $100 to satisfy any Economic desire of his which he knows he can satisfy as perfectly for $75, or $80, or $90, or even more than $90 so it be less than $100? Certainly not. Then the Economic law in question may be expressed in terms of Money. Instead of saying that men seek to satisfy their Economic desires with least exertion, we may express the same natural law by saying that men seek to satisfy their Economic desires at the lowest Money cost. Both statements have the same meaning. The only difference between them is that the latter is ex-

pressed in terms of Money measurement whereas the former is expressed in terms of human effort.

Another familiar demonstration of this natural Economic law that men both individually and in the mass seek to satisfy their Economic desires with least exertion, is the human craving for Labor-saving invention. Could any more comprehensive exemplification of the natural law in question be demanded? Why does mankind crave Labor-saving methods for producing Artificial Objects from and upon Natural Resources, if there be no law of human nature which impels mankind to seek satisfaction of Economic desires with least exertion? John Orr concisely sums up this Economic law in these words: "Very strong and deep is the desire of men to find the easiest way of doing things." [1]

The earliest expression of this principle was by Henry George in 1879. Alluding to Political Economy, the term by which Economics was then identified, he wrote: "It lays its foundations upon firm ground. The premises from which it makes its deductions are truths which have the highest sanction; axioms which we all recognize; upon which we safely base the reasoning and actions of every-day life, and which may be reduced to the metaphysical expression of the physical law that motion seeks the line of least resistance—viz., that men seek to gratify their desires with the least exertion." [2]

In the Economic realm all human exertion is usually and appropriately distinguished by the technical term "Labor." This Economic term for human exertion in

[1] "Short History of British Agriculture," By John Orr. Oxford University Press, 1922.

[2] "Progress and Poverty: An Inquiry into the Cause of Industrial Depressions, and of Increase of Want With Increase of Wealth. The Remedy." By Henry George. New York: D. Appleton and Company. 1883.

the production of satisfactions for human wants has been much abused by colloquial interpretations. So interpreted, Labor is often limited in meaning to the exertions of persons hired in "lower class" pursuits for fixed "wages." For somewhat "higher" grades of service, "salaries" instead of "wages" are paid. For self-employers still other terms are colloquially used, such as "profits" for the services of merchants and manufacturers and contractors; "fees" for the services of lawyers and physicians; "commissions" for the services of salesmen and brokers; and "discounts" for the services of bankers. Those verbal variations are of course admissible for such secondary purposes as private business may require; but for fundamental or general Economic distinctions which concern the whole human family, they are recklessly undiscriminative and hopelessly confusing. This lack of discrimination is attributable to a tendency in Economic study toward devotion to infinite detail regardless of precise generalization.

The result is a confusion of fundamentally different objects in messy categories, such as Labor with Labor-products; such as Labor-products with Natural Resources; such as income from Natural Resources with income from Labor—as, for instance, "Land" (Natural Resources) with "Capital" (Artificial Objects). It is like thinking of oil and water as a chemical compound when they happen to be in the same receptacle.

Fundamental conclusions in Economics cannot be based upon unassorted details. Students must concentrate their study upon the big facts, the Basic Facts, those primary categories which distinctively classify the whole swarm of secondary facts. Well enough it may be not to start out with assumed principles, nor with the scientific substitute known as "hypotheses;" but all rational study of Economics

must begin with the Basic Facts and proceed thence to a consideration of details with reference to their basic relations.

The distinctive phase of the present Lesson with reference to human exertion is exertion of the Economic type. Whatever its kind as matter of secondary classification, all human exertion comes within the meaning of the comprehensive Economic term for human service, which, as already stated, is Labor.

No more truly in the Labor category are the services of "wage-workers" than are those of farmers, of manufacturers, of merchants, of brokers, of bankers, of architects, of lawyers, of physicians, of engineers, of authors, publishers, teachers, or the services of any other useful workers who participate in the intricate processes of Economic production. All are within the Labor category. Be the Economic service whatever it may which any human being—from inventor to chattel slave — contributes to the satisfaction of human wants, such service belongs in the same basic category with every other Economic service. Consequently, it must be identified in fundamental Economic classification by the same technical term.

What term may be best for that purpose is of minor importance, if of any importance at all, since names are for identification rather than description. Consequently, the technical term Labor, adopted long ago by Economists of the highest rank to identify human service in Economics, is fully justified regardless of its descriptive qualities. Even as a descriptive term, what other word could better identify human service as a whole?

Among the outstanding minor classifications of Labor is Business, and to this another attaches which some advanced students in Economics classify by itself fundamentally. The latter is the service of the "en-

trepreneur" on "enterpriser." As a secondary classification this distinction is probably useful; but for comprehensive Economic study it is as useless as "carpenter" or "bricklayer" would be. Worse yet, it is misleading.

The "enterpriser" is a worker whose compensation for service is not fixed but depends upon the profitableness of the enterprise he pursues, which may be any business venture from mining or manufacturing to merchandizing, and in any capacity from employer seeking "profits" to salesman on "commission." To eliminate this type of Economic service from the fundamental Labor category in Economic science is not only useless and misleading but also absurd. The fact that the "enterpreneur's" service may or may not prove profitable to himself—the fact, in other words, that when he enters upon an enterprise he "takes chances" as to compensation—does not alter the Economic character of his functioning. He is none the less nor any the more in the Man category of Economics in contradistinction to the Natural Resource category and the Artificial Objects category. The only Economic difference, essentially, between him and the "common laborer" or "wage-worker"—except that one may be more serviceable than the other, individual for individual—is that the compensation of the "common laborer" or "wage-worker" is nominally secured by contract, whereas the "enterpriser's" is contingent; and this difference is not fundamental. To take the "enterpriser" out of the Labor category in Economics by assigning him to a fourth fundamental category, is to trifle with Economic classifications. Why extend the basic categories of Economics from Natural Resources, Artificial Objects and Man, to Natural Resources, Artificial Objects, Man and Enterprisers?

A similar classification of Business itself—which, by

the way, is usually managed by "enterprisers"—would likewise be absurd and trifling as well as confusing. What is legitimate Business but human service? And what else in Economic classification fundamentally can human service be but Labor? Business is in the Man class of Economics in contradistinction to the Natural Resource class and the Artificial Objects class. No other fundamental classifications are possible. Consequently, the activities of Business classify themselves naturally in the domain of Economics as Labor.

And so of the professions.

So, too, of every other kind of human service in the Productive Process, whether the service take on such direct forms of Production as making Artificial Objects and such as delivering them from hand to hand or place to place, or such indirect forms as promoting the comfort, the enjoyment, the health, the education, the cleanliness or what not (provided it be Economically legitimate), of such human workers as literally do make or deliver Artificial Objects. All are in the Labor category.

Labor comprises, too, the serviceable operations of partnerships as such; also of corporations, of chambers of commerce, of labor unions; the services of schools and churches and theaters and social clubs; of political parties and religious societies—every kind of corporate service, in short, including the service of governments—to the extent that such service contributes, in addition to the contributions of its constituents in their individual capacities, to the production of Artificial Objects.

And Production—let the reference to this fact be not overlooked — comprises Delivery throughout the whole Productive Process to and including its termination in delivery to ultimate consumers. Railway

workers and sailors and storekeepers and household servants and waiters at hotels and restaurants and all their Economic associates from employer to "menial," are producers as truly as are farmers, mechanics or manufacturers.

Human services of the corporate type, as well as those of the individual distinctively, are too numerous and too intricately woven together to permit of detailed consideration here. It is enough to note that far and away as some of them may at a glance seem to be from the Productive Process in Economics, they will be found upon intelligent inquiry—except as they may be more or less perverted in operation—to be in the Economic category of Labor. That is to say, they are human factors in the Production of Artificial Objects from and upon Natural Resources.

One kind of corporate service, a comprehensive kind, should perhaps be given brief special consideration for the double purpose of illustrating the Productive functions of every variety of corporate service and of explaining the Economic characteristics of that outstanding one of all. This particular kind is Government.

The "business" of Government, to use a colloquialism, the Labor of Government, to use the technical Economic term, is comprehensive and effective in the Productive Process to the degree—a reservation that applies to all other subclassifications of Labor, from the lowest grade of "hired man" to the most powerful partnership or corporation, from the most awkward apprentice to the shrewdest business "enterpriser,"—that its functions are wisely and fairly devoted to the task.

Governments are legislative, executive and judicial agencies of social wholes. It is their function to contribute service to the production of Artificial Objects

by preserving public order, defining and protecting private rights, distinguishing and conserving common rights, and managing or providing for the management of common affairs. To the degree that governments faithfully exercise their legitimate public functions and refrain from interfering with legitimate private functions, they contribute to the Productive Process. This is demonstrated by observable Economic results. Wherever Government approximates a realization of its functions, Economic conditions are manifestly better than where it neglects or abuses them. Evidently, then, Government is a form of human service which, like all other human service forms, belongs as an Economic factor in the Labor category.

And as with Governments, so is it with all other organizations in so far as their organic activities tend to promote good order, fair dealing, righteous social adjustments, peace, and general Economic prosperity.

The essential considerations with reference to Labor may be compactly summarized in these terms: (1) Labor can create nothing; it can only *produce*, by altering the forms and locations of natural substances. (2) Nothing but Labor can so produce. (3) Labor is therefore the sole directing factor in the production of Artificial Objects from and upon Natural Resources.

II. Natural Resource Factors

In the foregoing discussion of the relation of Labor in its broad Economic meaning to the Productive Process, it has been necessary, as a precaution in the interest of clear thinking, to give warning that the technical term Labor is often blurred in its significance by colloquial or business interpretations. A like warning is necessary with reference to the technical term for Natural Resources. This term, adopted long ago and quite appropriate and distinctive, is Land.

If it be said that Labor applied to Land produces Artificial Objects, the Economic meaning is the same precisely as if it were said that Artificial Objects are produced by Man from and upon Natural Resources. But all rational Economic meaning departs from the statement if indefinite colloquialisms or loose business terms be substituted for the precise technical terms.

Yet the technical term Land, like the technical term Labor, suffers in significance from a variety of colloquial and indefinite business interpretations. Indiscriminately it may mean open prairie land, or improved farms, or vacant building-lots, or buildings and the lots on which they stand, or all of them together. The absurdity of such undiscriminating interpretations is obvious to any one who reflects upon the significance of the three Basic Facts of Economics—Man, Natural Resources and Artificial Objects.

Such colloquial and business-habit confusions of the technical Economic term Land, like similar confusions with reference to the technical Economic term Labor, often mislead advanced students of Economics as well as "the man on the street." In any serious consideration of the Productive Process it is of the utmost importance that the Basic facts be kept distinctively and definitely in mind.

As Labor in Economics means service by and for Man, and nothing else, so Land in Economics means neither more nor less than any and all Natural Resources. It is the technical Economic term for the Natural Resource factor in the Productive Process.

Without Land, Labor would be powerless to produce Artificial Objects. But Land is abundant in all varieties. Trees grow in forests, minerals repose in the earth, the soil offers itself to the farmer, the sea to the sailor, solid ground to the builder, flowing streams to all. Together with the winds, the light-

ning, the snow, the rain and all the other subtle and mysterious forces of Nature, those Natural Resources respond freely to the multifarious energies, the broadening knowledge of natural law, and the intensifying skill of Labor. They are among the natural substances and forces which are comprehended in the word Land as a technical Economic term.

As Labor is the active factor in the production of Artificial Objects, so Land is the corresponding passive factor.

III. Artificial Objects

Unless the category of Artificial Objects (which are the continuous outcome of the Productive Process) be treated with like fidelity to the meaning of technical Economic terms, there will still be confusion and consequent bafflement in Economic study.

Yet such fidelity is sadly lacking. There is an unfortunate tendency to indulge in the same colloquial trifling and business habits of speech with the technical term for this Basic Fact as with the technical term for the Man factor and the technical term for the Natural Resource factor. Although Wealth is the generally accepted technical term for Artificial Objects, careless uses of this term have well nigh obliterated its technical significance.

Technically it is correct to say that Wealth is produced by Labor applied to Land. This means neither more nor less than that Artificial Objects are produced from and upon Natural Resources by mental and physical exertions of Man. So used and understood, those technical terms enable us to trace Economic details in the Productive Process easily and accurately through all their complexities from origin to destination. We have but to assign them to their respective categories or Basic Facts and always to

think of them in that connection. Yet, as with Labor and Land, so with Wealth. Colloquializations and arbitrary business meanings of this specific technical term multiply complexities and make Economic confusion worse confounded.

By colloquial usage and in business accounts the word "wealth"—"capital" when used as a sub-classification of Wealth, that is, Wealth devoted to the production of more Wealth—has taken on a variety of misleading connotations. In business accounts, for example, whatever will bring a price to the owner is accounted Wealth, or Capital as a sub-classification of Wealth, whether the object of the price be a building, a domesticated animal, a slave, a vacant building-lot, an unused agricultural area, or an improved and cultivated farm. Some of those items of "wealth" or "capital" do belong, Economically, in the Wealth category, buildings and domesticated animals being among them; but many fall wholly or in part into one or the other of the two other categories, Labor and Land.

Evidently the science of Economics, which comprehends the interests of all and not merely those of a private business, cannot classify slaves as Wealth. Since they are not and cannot be Artificial Objects, but are human beings, they belong of necessity in the Man or Labor category. They differ radically from animals. In the wild state animals belong Economically in the category of Land (Natural Resources) as truly as wild vegetation does; in the domesticated state they are Wealth (Artificial Objects) as truly as produced vegetation is; and if used to produce Wealth they are Capital (Wealth used for the production of Wealth) as truly as machinery is. But slaves in their "wild state" are not Natural Resources for the use of Man, as wild animals are; they are human beings, and as such they belong in the Man category.

As used in business accounts and colloquially, the word "wealth" does, as indicated above, include some kinds of true Economic Wealth, such as "store goods," buildings, farm produce, machinery and other Artificial Objects. But in those undiscriminating uses it also includes such Natural Resources (Land) as mineral deposits, water fronts, building sites, railroad rights of way; also mere titles to various kinds of property interests, such as bonds, mortgages, deeds, bank balances, money in hand and corporation stocks.

Some of the Economically desirable things which are included colloquially and for business accountings in the term "wealth" are truly Wealth in the technical Economic sense, let us repeat, since they are Artificial Objects produced by Man from and upon Natural Resources—that is to say, by Labor from and upon Land. But others are not at all in the Wealth category, and putting them there has no other Economic result than confusion. Such of them as consist solely of Natural Resources belong in the Land category. Artificial Objects alone belong in the Wealth category. Deeds, mortgages, bank balances, money in hand, corporation stocks and the like, belong in no Economic category at all below the surface of customary titles to property. They are nothing but evidences of legal title to property of any kind—Natural Resources, Artificial Objects, Man himself when and where ownership of Man by Man is conventional.

To illustrate that species of confusion, for the importance of precise discrimination in Economic thought cannot be overemphasized in Economic study, a farm is often accounted "wealth" or "capital" in colloquial and business usage. So of its purchase "price" or "value," and also of a mortgage upon it. Yet its purchase price and a mortgage are merely evidences of title to property. Neither of them is Wealth or

Capital within the meaning of precise Economic terminology. If they were, the more the mortgages upon a farm the more valuable it would be. A farm the purchase price of which is ten thousand dollars would be worth fifteen thousand if it were mortgaged for five, and seventeen if it carried a second mortgage for two. And that would be absurd. The farm itself really consists of a combination of Artificial Objects and Natural Resources—that is to say, of Wealth and also of Land—two radically different things as matter of Economic discrimination. Its site is a Natural Resource, its untilled soil is a Natural Resource, the space which it and its surrounding atmosphere occupy are Natural Resources. All those characteristics are in the Land category. But its artificial enrichments of soil by tillage or other human activity, and artificial replacements of exhausted or partly exhausted fertility, the fencing and the ditching and the buildings, what are they? what can they be but Artificial Objects, and therefore in the Wealth category? Nor is this conclusion vitiated by the fact that permanent improvements of the soil or location by means of drainage or "made land" or the like may with lapse of time lose their artificial characteristics in consequence of an ultimate natural merging with the site.

A different type of illustration, though identical in Economic terminology, would be an urban residence or a building for business. Its site, the enveloping atmosphere, the space—all these are in the Economic category of Natural Resources or Land. But the building is an Artificial Object and therefore in the category of Wealth. If the building burn down or be torn down, then the property—the site and the space it commands—is in the category of Land alone. In no respect can the site and the space it commands be Wealth in the technical Economic sense—in the

discriminative sense which identifies basic differences.

In that sense nothing is or can be Wealth except Artificial Objects produced by Man from and upon Natural Resources. The common characteristic of Wealth in the technical Economic sense is that it consists of natural substances which have been adapted by human exertion to human uses. Another term would serve as well, but no term would serve if used also to designate something radically different.

IV. Secondary Categories

In Economic analysis Wealth takes on two aspects. They are distinguishable by secondary classifications. One is Wealth in the possession of consumers; the other is Wealth in process of utilization by Labor for the production of further Wealth. For the former no technical Economic term is in use; for the latter the technical Economic term is Capital.

1—*Capital*

Capital is a highly important technical term in Economics. It must not be confused, therefore, with the same word as loosely used in business accounts, where, like the term for its parent category, Wealth, it mingles such essentially different things as Wealth and Land —Artificial Products and Natural Resources. And, as observed in a preceding paragraph, not only such different things as Wealth and Land, but in some circumstances Labor also.

Such undiscriminating uses of the term Capital are doubtless defensible enough in business accountings; for in private business anything may be thought of as business "capital" if it can be summarized in terms of Money. But for Economics as a comprehensive social science, the dumping into the same basic category of such radically different things as Labor, Land

and Wealth—Man, Natural Resources and Artificial Objects—is indefensible and miraculously confusing.

Limited strictly to distinguishing Wealth consumed in the process of producing more Wealth—Artificial Objects devoted to further production of Artificial Objects,—the term Capital is a convenient subclassification of some kinds of Wealth. To appreciate that characterization one need but think, for instance, of any sort of productive machinery. Is it not an Artificial Object? Is it not produced by Labor? Is it not produced from and upon Land? Is it not used by Labor upon Land for further production of Artificial Objects? And are not those observations true also of seed gathered and saved for planting? of minerals mined for metal? of metal to be transformed into productive machinery? of food material turned into food at a restaurant? Are they not true of every kind of intermediate product—from Machinery (which, though finished as machinery, is only an intermediate factor in the process of producing Wealth for ultimate consumption), back to the rawest of artificial raw materials and forward through all gradations to the food on a dinner table, the clothing on a diner's body, the floor under his feet and the roof over his head?

One obsession regarding Capital, even when the term is used with Economic accuracy, is that it consists of saved Wealth. There is no such process, in any literal sense, as saving Wealth—Artificial Objects—except for ripening or reproduction purposes. Even for those purposes the saving is in the nature of using, its object being the production of more Wealth rather than preserving this Wealth. Any saving of Wealth in the Economic sense, consists in utilizing it in the Productive Process.

Are art objects exceptional? Not such as are rela-

tively reproducible. Only "uniques" are exceptions, if indeed they may be regarded as within the boundaries of Economics. Saved over long periods, hundreds upon hundreds of years in some instances, these would seem to be out of the field of contemporary Economics. What gives them their extraordinary value? The same kind of non-Economic sentiment, on a higher plane, perhaps, that gives extraordinary value to heirlooms. Such products are not Wealth in the Economic sense any more than sacred tombstones are. Though produced by Man from and upon Natural Resources, they cannot be satisfactorily reproduced. They are closer to the nonproducible Natural Resource category than to the reproducible Wealth category.

That titles to Wealth may be saved is true enough. But in no extensive sense can Wealth itself be saved. Unless consumed in the production of more Wealth, or in the satisfaction of human desire, Wealth goes to waste.

Titles to Wealth, except such as are specific like the title to a particular house, are titles not to existing Wealth but to future Wealth. A title to a house, being specific, testifies to property rights in a particular structure which is in process of consumption. A title to its site is not a title to Wealth, but to Land, which, however, may be exchanged for Wealth. Such general titles as Money obligations declare, are titles to anything upon the market when demanded, including Wealth that may have been produced years after the total consumption of everything for which the Money title was originally exchanged. One's "savings" in the form of Money or credits are not Wealth produced but titles to Wealth not yet delivered to him, and perhaps yet to be produced.

Only in the sense of withholding for use or of using or permitting its use in further Production of Wealth,

is Wealth actually saved; and such saving is part of the Productive Process. It is a dedication of that portion of produced Wealth to service in the production of further Wealth. Wealth so dedicated is Capital.

A familiar example is seed saved for sowing. Also seed sown for growing. And seed in the barn awaiting the sowing season, that too is Capital. Seed in the field sprouting and growing and producing grain for the coming harvest, is likewise Capital. The ripened grain ready for harvest is Capital in turn, for it, too, is Wealth to be utilized in the production of more Wealth—bread or seed or both.

And so of mechanisms, which grow not as seeds do but only as the hand of the mechanic coaxes them into shape. When, for example, a machine which aids in the flouring of grain is produced, he who owns the machine owns Capital. He has saved it by putting purchasing power into a productive implement instead of putting it into ultimate products for his own consumption. Owning the machine, he owns bread-producing Capital. Using it, he consumes it in the production of bread.

A coffeemill, for further illustration, is a machine produced by Labor from and upon Land, which, when Labor uses it for grinding coffee (another product of Labor from and upon Land) brings the latter product nearer in serviceability to the ultimate consumer.

For a complex illustration, consider a railway passenger car. It is Wealth because it is an Artificial Object produced by Labor from and upon Land. But does it fall into that subdivision of Wealth which is distinguished as Capital—Wealth used for the production of more Wealth? As to its owners it is Capital, for they are using it to increase their share of Wealth in process of production; but as to the aggregate of

social Wealth, its passengers, if not using it for productive purposes, are consuming Wealth unproductively. To the extent that the passengers are not on productive missions, but are gratifying their own wants, a passenger-car is in Economic contemplation Wealth in process of ultimate consumption to satisfy wants; to the extent that its passengers are on productive missions it is Wealth devoted to the Production of more Wealth, and therefore in the subcategory which is distinguished as Capital. The fact that part of its use is for Production and another for enjoyment does not disturb the principle which distinguishes Capital from Wealth in process of ultimate consumption for the satisfaction of wants.

Capital is Wealth in forms that are consumed in the further or better production of Wealth toward final forms for ultimate consumption. To save such Wealth in the sense of preventing its consumption would be to waste it; but to permit its consumption in the Productive Process is to give it serviceability.

So with all other details of the Productive Process, from natural raw materials to and including delivery to ultimate consumers. Capital is produced by Labor from and upon Land and in forms of Wealth—either Artificial materials or Artificial contrivances—which, being adapted and devoted to further Production of Wealth, are part of Labor's artificial materials or mechanism or both—Wealth produced for augmenting Productive power. In Economic phrasing, Wealth used in the Production of Wealth is Capital.

2—*Trade*

Another prominent sub-classification of secondary facts involved in the Productive Process is inseparably associated with Capital. This subordinate category is Trade, to which our attention was directed in

the second stage of our delving down from the surface of Economics to its Basic Facts.

Trade is an essential part of the Productive Process in Economics. It is inseparable from Labor specialization. If some Labor be devoted to the Production of one kind of Artificial Objects, one kind of Wealth — food, for instance — the producers of such Wealth must satisfy their desires by trading with other kinds of Labor specialists—clothing producers, for instance—for what the latter make and the former do not make. Evidently, then, the more minutely Labor takes on specialized activities, the more extensive and intensive must Trade become. And when, as in our civilization, Labor is so minutely specialized that nobody can satisfy his Economic desires by his own productive activities directly, Trade is an indispensable part of the Productive Process.

In form it is an interchange of commodities; but in essence it is, as already explained, an interchange of Labor functions—of human services.

Springing out of a manifestation of natural law which is rightly distinguished in Economics as "division of labor," and thus inspiring and facilitating specialization in the Production of Wealth, Trade is a natural phenomenon. Within manifest limits and without extra exertion two producers can produce more than twice as much as one, four more than twice as much as two, and so on, subject only to the limitations of Natural Resources. By exchanging products they therefore naturally multiply their productive powers.

For a crude illustration, is it not plain that two frontiersmen working cooperatively can build a habitation for each quicker and better than either could build one for himself? Or two messengers, each charged with one errand a mile away in one direction from a central point and another a mile away in the

opposite direction, can they not do the four errands twice as quickly and easily, even if not more than twice, if they divide their functions? By such division each messenger would walk one mile out and one back, two for each and four in all, delivering four messages; whereas, without such division, each would travel two miles out (one in each direction) and two miles back, four for each and eight in all. In addition to the saving of time and energy, each will have saved productive capabilities too subtle for specific enumeration.

The principle of those illustrations applies to the whole Productive Process. By division of Labor, that is to say, by Labor specialization, Economic accomplishment is multiplied beyond all the possibilities of isolated individual production.

But division of Labor would be useless were it not for Trade. Each of those frontiersmen must trade his share in the other's habitation for the other's share in his habitation; each of those messengers must exchange his claim to compensation for delivering one of the other's two messages for the other's claim to compensation for delivering one of his. This, then, is the sum and substance of Trade in Economics—adjustments of compensation for specialized Production through division of Labor.

The effect is magical. By division of Labor and Trade the single individual becomes a vital part of a comprehensive human organism, of a greater man, of the Social or Economic Man—a Man of almost infinite Economic powers.

Those two kinds of Economic energy, making and trading, permeate the multitudinous phenomena of that Productive Process in the course of which Man draws forth Artificial Objects from and upon Natural Resources, for the satisfaction of human desires; or,

to use the technical Economic terms, in the course of which Labor produces Wealth from and upon Land.

3—*Utility, Value, Money, Price, Banks*

In connection with division of Labor and Trade we are brought into contact with the phenomena of Economic Utility and Economic Value.

Utility is an absolute term indicative of essential desirability. Value is a relative term indicative of the relative Utility of commodities; or, more precisely, of the degree of desirability of one variety of Labor or Land or form of Wealth in comparison with other varieties. One variety of Labor or of Land or of Wealth may be twice as desirable as another, unit for unit, in which case one unit of the former will exchange in Trade for two units of the latter. Thus the relative Utility of a Commodity is indicated in Trade by its Value.

For measuring Value in all its variations from least to greatest and comparing these in the Productive Process, the Economic instrumentality is Money, that surface layer of Economics through which we passed in our exploration down to the Basic Facts; and the synonym for Value in terms of Money is Price.

By way of illustrating Utility, Value and Price, one may say of a quantity of Wealth in the specific form of wheat, that it has Utility because it can be productively advanced to food or be used as seed for the production of more wheat and so of more food; that it has Value because its desirability is a subject of comparison with the desirability of other desirable things in Trade; and that it commands Price because it can pass from owner to owner through Trade in terms of Money. Or of Land in the specific form of a building-site, one may say that it has Utility, for it will afford natural support for the foundations of a

dwelling or a store or a factory or a railroad right-of-way, and command the natural light and the air within its boundaries; that it has Value because it can be exchanged for other Land or for Artificial Objects; and that it has Price because Money or credit in Money terms may be had for it upon transfer in Trade.

Yet a commodity may have the highest degree of Utility without having Value or commanding a Price; or it may have great Value and command a high Price though of little Utility.

Let us observe here a difference in meaning, often ignored by advanced students, between the terms "utility" and desirableness. Thoughtfully considered, "utility" defines an absolute quality, whereas "desirableness" indicates a varying relationship. This obvious difference is often confused by such terms as "total utility" for Utility, and "marginal utility" for degrees of desirableness. For an example, the "total utility" of water is great, because by natural law man cannot live without water. Yet an abundant supply of water may reduce its "marginal utility" to zero. On the other hand, the "total utility" of diamonds is slight, whereas their "marginal utility," due on the one hand to their scarcity and on the other to human vanity, is great. Such distinctions as "total utility" and "marginal utility" are nothing but subclassifications of Utility. They serve no better purpose for fundamental Economic study than the distinction which "utility" and "desirability" express without as much risk of confusing thought. Water, for example, is none the less useful because it is abundant, even though its abundance seems to lessen the desire for it relatively to desire for scarcer things. As to water, nothing is really lessened but desire relatively to supply. Nor does the scarcity of diamonds add an iota

to their Utility. It adds only to the relative demand for them and therefore only to their Value in Trade.

To repeat, then, the assertion made above, a commodity may have the highest degree of Utility without having Value or commanding a Price; or, it may have great Value and command a high Price though of little Utility.

For further illustration of Value and Utility thus defined, nothing has greater Utility—greater "total" Utility, if that professorial term be preferred — than the sun; but the sun has no Value except as its Utility is controlled by ownership of Land favorably situated with reference to it; for it cannot be exchanged in Trade for anything else. Nor has it Price, for Money cannot buy it. Though it may be bought and sold to some degree indirectly through the buying and selling of Land which controls the sun's utility to that degree, this value is not sun-value but Land Value.

Yet all commodities—whether in the Wealth class, as a house or food; or the Land class, as a natural building-site, or an ore deposit, or soil fertility, or the sun to the degree that its light and heat are owned through ownership of Land—have Utility, Value and Price. The last of the three is expressed in terms of Money.

Money is the common medium of Trade. Where and when Money is in use, he who wishes to trade a hat for shoes need not hunt for somebody who has shoes but wants a hat instead; all he need do is first to find some one who has shoes and wants Money. And since persons who want Money (which as a common medium of Trade is in effect everything in the channels of Trade) are so many in comparison with those who at a given time want shoes, Money in-

finitely diminishes the difficulties of trading commodities.

Money is also a common denominator of Value, as we have already observed. Without it each of us would be obliged to express the Value of each exchangeable object in the complicated terms of all other exchangeable objects. We should have to say, for example, that a hat has the Value of a pair of shoes or of a chair or of an umbrella and so on; that a pair of shoes has the Value of a hat or of a chair or of an umbrella, and so on; that a chair has the Value of an umbrella or of a pair of shoes or of a hat and so on; and that an umbrella has the Value of a hat or a pair of shoes or of a chair and so on. And then we should have to complicate the comparisons with specifications of quality. But Money terms obviate the necessity for such vague and multifarious Value comparisons as are here merely hinted at. They enable us to say that a hat, a pair of shoes, a chair, an umbrella are each of the Value of five dollars, or a pound sterling, or so many francs, according to the names and fidelity to financial standards of Money pieces in the places where we engage in Trade, and according also to the quality of the commodities specified.

It should, however, be here repeated and emphasized, that Money pieces in whatever form, be it coin or scrip, are themselves of slight practical importance in the ramifications of Trade. Not tangible Money, but the Money terms which measure and express the relative Values of commodities—these play the great part.

In adjustments of Trade outside the pocketmoney class of transactions, Money pieces do not serve to the extent of five per cent. Nearly all those adjustments are effected by means of Money terms in books

of account and through the medium of checks and drafts and notes and bills of exchange. These are in effect orders upon banks (one of the forms of Labor) for the transfer of credits recorded in their books of account.

Banking is an improvement upon Money pieces in Trade, very much as Money pieces are an improvement upon crude barter. It lifts the Money-piece customs of Trade to book-keeping levels. If everybody were a bank depositor, and every bank were connected with every other by a perfected clearinghouse system, all necessity for Money pieces, except for "pocket cash," would vanish. In that event the check and the promissory note and the bill of exchange, operating as orders to the book-keepers of banks and clearinghouses, would effect transfers of debits and credits the world over so that all Trade would be barter systematized—plain barter freed from the obstructions incident to barter in primitive Economic circumstances. Except for the use of "pocket cash," Money pieces of every kind, whether metal or paper, would be like children's toys to grown-ups.

4—*Balances of Trade*

Out of worldwide Trade, which, like Trade in narrower circles is effected by means of Money terms in books of account and through the medium of drafts by creditors upon debtors, a subclassification has evolved in Economics of the business-customs type. This subclassification alludes to a situation in Trade between the people in the aggregate of one country and those of the other countries of the world, in which the balance for that country is at any given time on the credit side. Its exports exceed its imports. This situation is known in the business circles of creditor countries as a "favorable balance of trade."

The suggestion that such balances are favorable is doubtless true with reference to banking and some other business relationships. Business must be better with banking, apparently at least, when the buying and the selling of drafts on the people of foreign countries is brisk than when it is dull. It must be better, also, with exporters who draw the drafts and sell them. The drawing and the selling of drafts against foreign balances is surely a more profitable occupation when there is an excess of exports to draw against than when the balance of trade is the other way. It must be even more satisfactory in those connections when the excess of exports is continuous.

But as matter of comprehensive Economics, in which not only bankers and exporters but also all the other Wealth-producers of a country are concerned, it cannot be true that a perpetual credit balance of international trade is a favorable balance. In international trading, as in trading between individuals (which, by the way, international trading in the last analysis is), the aggregate of exports and of imports must counterbalance. Otherwise the producers of the exports, considered as a whole, must be engaged in foreign trade at a loss. They give more Value than they get. Surely, trading at a loss is not favorable trading.

Would a farmer prosper if every year he sold a thousand dollars' worth of his products and got back only eight hundred dollars' worth of other products? Wouldn't that depend upon how much credit to him had piled up in account-books as a result? If none, wouldn't he have exchanged his products at the rate of $10 for $8? How long would a farmer prosper if he considered that kind of balance of trade as favorable?

Precisely so with international trading. The only

difference is that in the farmer illustration we have a solitary individual, whereas in international trade we have many individuals grouped in national wholes. In comprehensive Economics that difference is no difference at all.

A credit balance between national communities is simply the difference in Value remaining after all international trading to a given date has been entered in the books of account. If that balance be on the credit side of one of the nations, the creditor individuals of the creditor nation may draw against it. To them it is a favorable balance, in book-keeping terms. But if it is never to be paid off with imports, which seems to be the aspiration of those who applaud so-called "favorable balance of trade" theories, is it not in truth an unfavorable balance?

If the reply be that the balance will be paid in gold, what difference does that make in any comprehensive Economic sense? Gold itself is a product of Labor applied to and upon Land. To import it in payment of international balances would be precisely the same, Economically, as importing other products of Labor.

Some private businesses may prosper through "favorable" balances of trade, but Business everywhere and as a whole, Business in the comprehensive sense of the science of Economics, must find "favorable" balances of that unbalanced kind extremely unfavorable to the people of every nation as a whole and to most producers individually.

International balances of trade are but aggregates of individual balances. The favorableness or unfavorableness of either kind depends upon difficulties of collection. If, for illustration, an individual has a credit balance in his account at a bank, it is a favorable balance provided he may "check it out" at will in payment for products or services; but to the extent

that obstacles to his "checking out" are put in his way, the balance has an unfavorable aspect. If the obstacles be prohibitive—a 100 per cent stamp tax, for illustration,—the credit balance would be decidedly unfavorable. It would be unfavorable in less degree only as the stamp-tax was reduced from 100 per cent, down to 50 per cent or 25 per cent or 1 per cent. The depositor would have sold more value than he could buy; that is, he would have "exported" from his products more than he could "import" from the products of others.

A like conclusion is inevitable in the aggregate of world trading. To the extent that exports of Wealth are not offset by imports of Wealth, to that extent every trading balance is unfavorable. The Economic benefit of credit balances of all kinds, whether individually or in community totals, depends upon ease of collection.

V. An Illustration of the Productive Process

By means of the primary and the subsidiary categories described and illustrated in this Lesson, all the tangled data of the Productive Process in Economics may be readily unraveled. Consider for further illustration the Productive phenomena involved in so simple a specimen of Wealth (Artificial Objects) as a needle in the hands of a house-wife engaged in mending family clothing.

She bought the needle at a retail store along with many other needles gathered together in a bunch—a "paper of needles."

How did that "paper of needles" get into the stock of the retail store? It came with other commodities from a wholesale store. How? By a railway train, on the complicated structure and management of which, as well as upon the roadbed, the track and the

station houses, a great variety of Labor had been expended.

Where and how did the wholesale store get that needle? Directly or indirectly, and by similar complicated methods of transportation, from a needle factory.

How did the needle factory get it? Its workers made it. How? By means of machinery, Artificial Products—Wealth used as Capital for the production of further Wealth.

Of what did those workers make the needle? Steel. Where did the steel come from? From transformations of iron in a steel mill. The iron? From iron ore. The ore? From natural deposits in the earth.

By what magic was all that brought about? By an infinite variety and complexity of specialized Labor, which, applied to a variety of special kinds of Land (National Resources) — in country, town and city,— produced all the Wealth (Artificial Objects) necessary for the production of more Wealth, namely the Capital; and this consisted of implements and structures made from and upon Land by Labor; of implements and structures for the production of those implements and structures, also made from and upon Land by Labor; of transportation facilities of many kinds similarly made and operated. Also buildings for stores as well as factories—all in a confusion of industrial specialties that can be unraveled only by generalizing the details in accordance with natural law as disclosed by the Basic Facts.

Let that unraveling be done and still we may be bothered by collateral problems to which those details give rise—banking, for instance, and book-keeping all along the productive lines.

To follow in detail the ramifications of the Production of that needle from the first effort of Labor to

which it owes its existence, to its delivery at the retail store in a "paper of needles" to the house-wife in whose deft hands we find it, would drive even a magician mad. But all confusion is banished if we classify the multitudinous details according to their natural characteristics respectively, as Labor, Land and Wealth.

And as of the details of that needle's production, so of all Economic details, from least to greatest, from simplest to most complex, throughout the labyrinthine intricacies of the Productive Process in Economics. To study separately all the Economic constituents of even the simplest civilized habitation and their respective relations to it, Economically, one would need training in many different kinds of specialties, from forestry to decoration. Yet systematic Economic thinking assigns every Economic detail to three categories which can be studied without risk of confusion. It need hardly be again explained that those three categories are Labor, Land and Wealth. Every constituent of such a habitation, no matter how minute, is assignable for primary Economic study to one or another of those Basic Facts—to Land for the site, and for all the rest, from architectural designing to decorative completion, to composites of Land and Labor.

Likewise of every other human contrivance for human satisfactions. In multitudinous detail it is an inexplicable mystery except to an all comprehensive body of experts, and even to them if they ignore the Basic Facts. Yet every complexity disappears when the details are assigned to their appropriate natural categories of Man as the sole producer, Natural Resources as the sole basis and source of production, and Artificial Objects as the product; or, reverting to technical Economic terms, when the confused details are appropriately assigned to Labor as the Productive

power, to Land as the basis and source of Production, and to Wealth as the Product.

All Economic details, from least to greatest, from simplest to most complex, from most familiar to most mysterious, throughout the labyrinthine intricacies of the Productive Process in Economics, are like the details in the Economic history of the house-wife's needle of our illustration. What the points of the compass are to navigation, or the four fundamental divisions of arithmetic to mathematics, such are the three Basic Facts to the Productive Process in Economics.

SIXTH LESSON

DISTRIBUTION

AT the outset in this Lesson let the difference between Distribution of Wealth and delivery of Wealth be again emphasized.

Delivery is part of the Productive Process to which the next preceding Lesson was devoted. No Wealth is finally produced until, finished for ultimate consumption, it has been produced to ultimate consumers by final delivery.

Quite another thing is Distribution in the technical Economic sense. In this sense Distribution is the apportionment of Labor-produced Wealth in appropriate categories with reference to the Economic relationship of Labor to Land—of Man to Natural Resources.

A better term than Distribution, since this term has been so much abused by giving to it the sense of delivery by transportation (a mere phase of Production), would probably be Division. But Distribution of Wealth has too long served as the technical term for the Economic division or sharing of Wealth, to be discarded offhand.

Although the Distribution of Wealth in appropriate shares, with reference to the Economic relationship of Labor to Land, affects the sharing of Wealth by individuals, it does not completely dictate either the proportions or the magnitude of individual shares. These may be determined not only by natural Economic law but also by purchase, by common usage, by conventional inheritance statutes, by highway robbery, by forgery, by burglary, by petty theft, by "confidence" tricks, by lucky speculation or gambling games, by beggary, by "crooked business," by generous gifts,

by legal distortions, by taxation, by a thousand and one other influences, legitimate or illegitimate, outside the jurisdiction of natural Economic law. Radically different are those fundamental Economic apportionments in Distribution with reference to the natural relations of Labor to Land.

Fundamentally, Economic Distribution is a twofold apportionment of the Wealth produced by Labor from and upon Land, whereby one portion is naturally allocated to Labor as its producer and the other to Land-ownership as the controller of Natural Resources and sites.

Presumably, then, as Production of Wealth has two Basic factors—in technical terms Labor and Land, in other terms Man and Natural Resources—so Distribution of Wealth has two basic apportionments, one corresponding to the Labor or Man factor in Production, the other to the Land or Natural Resource factor—Wages for Labor, Rent for permission to use Land.

That there can be neither Wages for Labor nor Rent for Land unless Wealth has been produced, is a manifest law of nature. The nonexistent being naturally indivisible, Production of Wealth must precede Distribution of Wealth. Inasmuch, then, as Labor produces all Wealth and without Labor no Wealth is or can be produced, some Wealth must naturally be distributed or allocated to Labor as Wages before any can be distributed or allocated to Land-ownership as Rent.

Consequently, the Wages allocation of Wealth demands consideration first.

I. Wages for Labor

As with many another abuse of technical Economic terms, so colloquial and business interpretations have distorted the significance of the technical term Wages.

Even Economic teachers allow their imaginations to glide away from the comprehensive significance of this technical term much as they do from its corresponding technical term Labor.

All too readily does conventional Economic thought, when considering Wages, center upon the compensation which "shirt-sleeve" classes of hired men bargain for, "salaries" taking the place of "wages" when "white collar" workers cross the business line of vision. Still more select levels of Labor are compensated with "fees," "commissions," or "profits." To thinking students, however, students of Economics who recognize Economics as a science subject to natural law rather than a grouping of arbitrary business customs—to such students all special or mere conventional kinds of compensation for human service assemble themselves naturally in the same fundamental category, and for clarity of thought are always distinguished by the same technical term.

What the term for natural compensation out of human production for human service in aid of production might better be, is of no importance provided the term be treated distinctively. For Labor compensation out of Labor-produced Wealth, Wages if treated distinctively is an appropriate term, and its long time comprehensive use in Economics entitles it to preference. Wages, then, the technical term in Economic science for that natural allocation of some Wealth to Labor, which produces all Wealth, demands primary consideration in any study of the Economic phenomena of Wealth Distribution.

By natural Economic law all Wealth in Distribution goes to Wages as compensation to Labor, up to the point at which differences in the desirable qualities or locations (or both) of particular portions of Land disclose relatively high and low opportunities

for Production. In those circumstances Wages for production on the superior Land would be higher—a larger product of Wealth—than for the same Labor-power expended on inferior Land. Consequently another natural law of Economics becomes manifest. Rent for superior Natural Resources arises. It is the difference between Labor productiveness on the poorest Land in use and the productiveness of equal Labor-power on better Land. Thus Rent has a place along with Wages in the primary Distribution of Wealth. This Economic phenomenon is to be more definitely described farther on. Meanwhile the phenomenon of Wages commands our principal attention.

So long as Land freely offers equal opportunities for Production, the category of Wages comprehends the whole product of Labor. It is only as variations in the desirability of particular kinds and locations of Land play a part in Production that Wages as a whole are distinguished from total product. In those circumstances, however, the Wages category embraces the entire Product less Rent for superior Land.

It is not to be inferred, though, that deductions for Rent necessarily reduce Wages as a quantity. In normal circumstances the fact is the reverse of that. Although Rent reduces the proportion of Wages to Wealth it does not necessarily reduce the aggregate of Wages. On the contrary, Wages may be more in quantity when normal Rent is deducted from aggregate Wealth than before Rent arises. The reason is that Rent takes of Wealth only a surplus which is measured by degrees of superiority of the better over the poorest Land in demand.

Subject, then, to normal in contradistinction to arbitrary deductions for Rent, the Wages allocation of Wealth is assignable to earners in the Labor category

in shares approximately proportionate to the desirability of their respective services.

Subsidiary classifications of Wages are identified by more or less descriptive terms for colloquial convenience and private accounting purposes. Among these terms are "salaries," "commissions," "profits," "fees," "labor costs," and "dividends." All of them are doubtless convenient for keeping track of private business or other personal details; nor are they objectionable for Economic research provided they be not considered as primary or fundamental.

All such terms as "salaries," "commissions," "labor costs," and the like in private or business accounts, are in the Wages category of Economics. "Profits" and "dividends" are mixed, very much as with reference to the Productive Process in private and business accounts Wealth and Land are mixed. "Profits" may be and they usually are made up of a mixture of Wages for human service (Labor) and of Rent for natural resources (Land). Convenient as such confused classifications may be for account-keeping in private business affairs, or for other manifestations of mere custom, they have no legitimate place in the orderly categories of social Economics. However useful in business accountings, which concern only the private interests of business proprietors, they are intolerable in the science of Economics, which concerns not only a proprietor, nor every proprietor, but all mankind.

Even for private accounting purposes there seems to be a wise tendency among accountants toward more accurate assignments to normal Economic categories. One business classification holds high Economic rank deservedly. This is that subcategory of Wages known as Interest. Interest may be rightly regarded as the Wages of Capital. This is no play upon words, nor any confusion of Economic terms. It is a necessary

inference from manifest facts. Since Labor produces all Wealth, and Capital is a distinct form of Wealth—Wealth devoted to the production of further Wealth,—Labor is the producer of Capital; and inasmuch as the use productively of Capital increases Wealth, a share of that increase is properly assignable in Distribution to the Distributive category called Wages, though for discriminative purposes to a Wages subdivision. That subdivision is distinguished as Interest. It is a subdivision in Distribution in perfect correspondence with that subdivision of Wealth used in Production which is distinguished as Capital. As subdivisions or secondary classifications, therefore, the productive factor known as Capital and the corresponding Distributive element known as Interest are legitimate Economic categories, provided their Economic characteristic as products of Labor be not ignored nor they be confused with Land and Rent. This proviso is often ignored, however, as when Capital is classified with Land instead of Labor, and Interest with Rent instead of Wages.

In connection with the subject of Wages, Taxation for the support of Government demands passing consideration. If it be true, as indicated in our Lesson on the Productive Process, that the legitimate activities of Government belong in the Wealth production category as a Labor factor, then the Economically legitimate income of Government, whether through Taxation or otherwise, would seem to belong to the Distributive category of Wages.

Controversies over Taxation take the form primarily of "Taxation according to ability to pay" *versus* "Taxation according to financial benefits conferred" upon the taxpayer by the social whole of which the agent is Government.

The former contention—apportionment of Taxation

according to ability to pay—puts Government in the position of a highwayman whose "loot" corresponds to so much of the proportionate property of his victims as he is able to extort. But how shall taxes be measured in proportion to governmental or social benefits received in financial form by the taxpayer? A sound Economic discrimination might be made by levying upon Rent only, instead of both Rent and Wages as is now customary.

But by what right could Government levy upon Rent only if its claims to an income are as a producer of Wealth functioning in the category of Labor, the natural compensation for which is not Rent but Wages? The answer would seem to be that inasmuch as all Wealth is produced by Labor from and upon Land, and as the Rent allocation of Wealth attaches to Land-ownership—Land itself making no claim to compensation,—Government might with Economic consistency exact its Wages as a factor in Production from the receivers, actual and potential, of Rent, whose ownership of the Land, valueless without Governmental protection, rises in Value with Economic progress and and falls in Value with Economic decline.

Such an adjustment would exact no more of Economic science than appropriate alterations of the technical terms respectively for the two fundamental allocations of Wealth in Distribution. Instead of identifying one allocation as Wages and the other as Rent, the two could be identified respectively as Individual Wages and Social Wages. This mode of identification would in no wise disturb the natural characteristics of the two allocations into which the Wealth produced by Labor from and upon Land naturally distributes itself.

In that connection it may be useful to note the fact that Taxes on the Wages allocation of Wealth tend

to check the production of Wealth. They interfere with Trade, that gigantic factor of Production, by thrusting the tax upon consumers as part of the Price —not only the tax, but also business profits on the tax. On the other hand, taxes upon Rent tend to check the Economic evil of speculation in Landownership and the consequent monopolization of Natural Resources unproductively.

Related to the problems thus suggested is the policy commonly and widely known as "the Single Tax," the fiscal method proposed and widely popularized by Henry George for initiating and promoting an evolutionary process in the direction not only of ethical readjustments of fiscal methods but also of ethical readjustments of the Economic relations of mankind to Natural Resources and to Artificial Objects produced from and upon Natural Resources in accordance with natural Economic law.

That policy rests upon three Economic principles. One is the principle that Land (Natural Resources) is not an individual inheritance but is a common inheritance. Since no man or body of men ever has or ever can create Land, it is by edict of natural Economic law the inheritance of all that are living. But inasmuch as Land cannot be well utilized (such Natural Resources as the sea and other open waters excepted) unless subjected to private possession for farming, mining, manufacturing, merchandising and homes, or the like, private possession, control and management of areas of Land are an Economic necessity. To adapt that practical necessity, therefore, to the common right, the Single Tax policy proposes to make private possession secure without prejudice to common ownership, by the assignment annually, through taxation, of the annual Economic Rent or Value of all Natural Resources to Governmental

treasuries by way of annual compensation to the community for the annual values which the community gives to that Land. Concurrently the Single Tax policy would exempt Artificial Products and their producers from all taxation, on the principle that Artificial Products (Wealth) are the private property of their producers and purchasers.

The contention of "Single Taxers" is that such a policy would place Taxation upon a sound and ethical basis; that it would secure to utilizers of particular Natural Resources the full value of their use; that it would properly take from them for the benefit of all, the value of their monopoly of possession of common property; that it would stabilize the value of monopolized but unused Natural Resources (Land) at the level of their value for use, thereby abolishing speculation in the future values of Natural Resources; that it would open opportunities for Labor in its broadest and fullest sense to utilize Natural Resources in the production of Wealth (Artificial Objects) from Land (Natural Resources); that it would remove the artificial and lessen the natural barriers to Trade; and that it would bring about conditions of industrial freedom and equality on the basis of which every other needed social or Economic reform could rest securely and function effectively.

As the practical approach to that fundamental Economic reform—that reform of which its principal and distinguished advocate, Henry George, said that it would not accomplish everything in the way of Economic adjustment, but that without it nothing could be accomplished, for without it every Economic improvement instead of raising Wages raises Rent, instead of increasing the compensation of producers of Artificial Objects increases the values of the Natural Resources from which alone Artificial Objects can be

produced and on which alone they can be traded, used or enjoyed—as the practical approach to that fundamental Economic reform the Single Tax policy proposes its application gradually. It aims to substitute by stages the Taxation of Land according to its value as a commodity, for the present unrighteous and obstructive taxation of the actual uses of Land.[1]

Irrespective, however, of Taxation problems or of private *versus* common rights, and retaining the long-time technical terms for primary Distribution of Wealth—Wages as to Wealth not allocated to Landownership, and Rent as to Wealth so allocated—we may proceed to our study of Rent for Landownership as the secondary allocation of Wealth in Economic Distribution.

II. Rent for Landownership

For the use of any Land which is more desirable in its natural state than the best to be had for the taking, part of the Wealth produced from and upon it by Labor is allocated, through operation of Natural Economic Law, to the Distributive category for which the technical Economic term is Rent.

That allocation of a share of Labor-produced Wealth to Rent necessarily diminishes the proportion allocated to Wages, but it does not necessarily lessen the quantity.

Without Rent, Wages takes the whole Product; with Rent, Wages can of course take only a fraction of the whole. Yet as a result of enhancement of Labor-power—specialization, steam, electricity and other productive developments—that fraction of the whole may

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[1] See "Progress and Poverty," "Protection or Free Trade," and "Social Problems," by Henry George, and "What Is the Single Tax?" by Louis F. Post.

be greater in amount than the whole in less productive circumstances.

Rent is that proportion of total Wealth production which results from the use by Labor of Land lying above the Economic frontier, which in Economic terminology is best known as the Margin of Production.

For illustration, here are two tracts of agricultural Land of equal area and equal accessibility. One will yield to a standard of Labor-power more Wealth than the other, for the soil is richer. It will therefore be in greater demand by Labor than the other. Consequently, if its potential yield of Wealth be large enough and Land of its quality and location scarce enough to attract Landownership, Labor can utilize it only on condition of paying to that ownership a Wealth premium for the privilege. This premium is Rent. If paid periodically, it would be regarded as "groundrent"; if the "groundrent" were capitalized for selling or other commercial purposes it would take on some such term as "land value" or "selling value" or "capital value." But whatever the form or the colloquial term for it might be, this premium for superior Land is technically classed in Economics as Rent. As Ricardo [1] expressed it at a time when "Land" seemed to mean only agricultural soil, "Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil." Its tendency is to absorb all the Wealth produced from and upon superior tracts above what could be produced by like Labor from and upon inferior ones.

Still better agricultural Land would extract still higher Rent out of the Wealth product for the like special privilege of Production. Thus, with alterations in the so-called Margin of Production, the na-

[1] "Principles of Political Economy." Chapter II.

tural allocations from Wealth to Wages would rise or fall as the Margin receded or advanced, whereas the natural allocations from Wealth to Rent would rise with the advances of the Margin and fall with its recession.

The same marginal principle applies to other kinds of Land precisely as it does to the agricultural, some advanced Economic students to the contrary notwithstanding. For a non-agricultural illustration, here are two mineral deposits. One is more easily worked than the other, or more conveniently situated with reference to demand for the mineral product for Consumption. It is therefore more attractive to Labor than the other. Consequently, Labor will naturally yield to the ownership of the superior deposit (Land) a larger proportion of the mineral it extracts (Wealth) than to the ownership of the inferior deposit. The proportionate excess is Rent.

For still another illustration of the same Rent principle, here are two building-sites in a town or city. They are of equal size, and in every other physical respect equally desirable. But one of them is at the center of the business or other social activities of the town or city, the other at the outskirts. The former being in the Economic sense more desirable for Labor purposes than the latter, Labor yields to its ownership a larger proportion of Wealth as Rent than to the ownership of the other.

In a vast variety of special instances, such as those used above for illustrative purposes, Rent exacts from the flow of Wealth a continuous allocation which depends for its proportions to the aggregate flow upon the desirability of different qualities and locations of Land (as the Natural Resource factor in the production of Wealth) relatively to the desirability of such qualities and locations as may be had for the taking.

"The rent for any piece of land," writes Max Hirsch, the Australian economist, [1] "is determined by the excess of its productivity over that of an equal area of the least desirable land in use, after the sum of exertions which in both cases yield the most profitable result has been deducted.

All such exactions are phenomena of natural Economic law. Land exists in quantities to which Nature assigns impassable limits, and this limited supply of Land varies in fertility and in desirability of location. He who produces from and upon better grades will naturally achieve greater or better results with the same expenditure of Labor than he who produces from poorer grades. This difference is measureable by variations in the productive grades of Land, from nothing in excess of production cost on the lower side of the Margin of Production—the poorest in demand, the Economic frontier—to something in excess of production cost on the higher side of the Margin, the hither side of the Economic frontier, and to more and more for higher and higher grades up to the best.

It should be observed in this connection that the Margin of Production, the Economic frontier, is not a surveyor's line, like the boundaries of a farm or a county or a State. It is a term for an Economic difference, from lower to higher degree in the desirability of particular Natural Resources though they be separated by long distances or short ones.

Nor need the intervening space recede from highest to lowest by geographical degrees, or relative desirability depend upon richness of soil or mineral deposits.

Trading opportunities may do much to determine the Margin. A rich gold deposit beyond the reach of trading possibilities lies below the Margin, for it

[1] Page 127 of "Democracy vs. Socialism."

cannot be utilized. A farm twenty miles away from a trading center would be nearer the Margin than one two miles away, even though the two farms were equally productive, because the marketing costs would affect the Value of the product prejudicially. Space for a building-site a hundred and fifty feet from the nearest street line would be nearer the Margin than one fronting on the street.

Although the old conception of the Margin of Production—"margin of cultivation," as it was called—as bounding an open space of free agricultural land be obsolete, the principle of the Margin remains, namely, that the better the opportunity to profit by use of any location on our earth over use of the most profitable location thereon to be had for nothing, the higher will the Rent of the former be. That marginal principle will persist so long as some locations are preferable to others. And in those circumstances Rent will continue and be allocated with reference to "marginal" or zero-value Land. The better the opportunity to profit by the use of any location above the most desirable to be had for nothing, the higher will be the Rent of the former.

Whether the surplus of Production or possible Production be called Rent for Land, or deductions from Wages for superior opportunities to Labor, or be otherwise distinguished from Wages for Labor, it none the less exists as a distinct and natural allocation of Wealth produced from and upon Land by Labor. Although Rent depends wholly upon Labor for its Production it is a differential gain in Wealth which is due not to superior productiveness of Labor but to relative superiority of different kinds and locations of Land.

This continuous allocation to Rent of shares of Labor-produced Wealth may—it constantly does—take

on Capitalized forms. As Wealth is produced it flows toward the productive factors in two distinct and continuous streams—Wages for Labor and Rent for Land. But as Land has in business custom the rank of a commodity, the legal right of its owners to appropriate Rent assumes the form of Capitalized Land Value. An annual income from Rent, for example, be that income actual or only potential, may be bought and sold in business intercourse for a Capital sum or "purchase money." Commonly it is so sold along with the legal Land title by which it is secured to the owner, but often with Artificial improvements, the whole being called "real estate," as if the improvements and the Land were fundamentally identical.

As a result, the word "rent" takes on in the customary business sense a different meaning from the meaning of Rent in the normal Economic sense. In private business it may mean annual "groundrent," or annual house-and-ground "rent"; and when capitalized, all legal rental rights may be combined in Price or Value. A concurrent custom is the transformation noted above of Rent for Land into Capital value or selling Price.

Such capitalizations operate as mortgages upon future Production; and as the capitalizations increase, that kind of mortgage burden grows in Economic weight. If Production continues advancing, the consequent increase of Wealth as a whole easily bears the burden, which rests then upon the naturally increasing Rent allocation rather than upon Wages. But in consequence of such capitalizations, Rent tends to become a football for Land speculation. This results in excessive capitalizations of Rent, which tend in turn to lower the Margin of Production, the Economic frontier, abnormally. As a consequence, Rent exac-

tions in the form of speculative Land Prices rise above capitalizations of Rent at normal levels.

Exemplifications of such Economic phenomena may be observed in any community where at any time speculative Prices for Land have figured. In such circumstances, so long as Wealth is sufficiently increased by Labor — whether from improvement in Labor-power or from progressive advantages in Land opportunities,—increasing Rent is offset by increasing Wealth, and Economic prosperity abounds. But when increase in Wealth-production lags behind Rent, prosperity is checked and a "slump" in Land-values, Economically perilous, follows.

Other causes of Economic depression than "slumps" in speculative Land-values there doubtless are. They spring from such superficial maladjustments in the processes of Trade as are connected with defective banking, fluctuations in the values of corporate stocks and variations in Money standards from lack of effective stabilization. Even as to business depressions apparently so produced it is, however, exceedingly difficult if not impossible to declare with certainty that the leading part is not played by speculative Land values. For in our neo-feudalistic era, Land values are intricately confused with Wealth values in corporation stocks and bonds. To the extent that Land values and Wealth values are thus mingled, it is quite impossible to account for many Economic upheavals without more distinctive inventories of property in Trade and more accurate Economic classifications than in business circles or among advanced students of Economics have as yet been reached.

Before passing to the next sub-division of Distribution, it may not be a diversion to direct attention to the most remarkable distortion of technical Economic terms that has yet harassed Economic thought with

confusion. This is the attempt of some Economists to identify Rent with Wages, by ascribing extraordinary compensation for extraordinary human service to "rent of ability." As a subclassification of Wages there could hardly be any objection to this assignment except its tendency to mix Rent for Land with Wages for Labor in the minds of students. As a fundamental classification, however, its absurdity is manifest. Can anybody "rent" his ability, however great it may be, without putting it at work? Could the ablest physician, for instance, get a fee unless he offered to work with his ability? Could the most brilliant author command royalties unless he wrote books? Of course not. It is only as one works or promises to work that he is compensated for any degree of ability. Although Landownership may command compensation in Rent for such special opportunities as the Land offers to Labor, regardless of whether it is utilized or not, Man cannot rent his ability without obligating himself to use his ability; and the man who obligates himself, though he may call his compensation "rent" if that pleases either his vanity or his love for confused thinking, gets for his ability no rent whatever. What he gets is Wages for making his ability serviceable as a Labor unit. Nor is such compensation any the less Wages or any the more Rent, if it be (as with lawyers) a retainer for pledging future service which in the end has not been required of him. Compensation for work, or for a contract to work, is Wages whether the contract be in consequence of the worker's ability or regardless of it. All compensation for service units, from lowest grades of ability to highest, is in Economic terminology and analysis, not Rent for Land but Wages for Labor. The bricklayer, contrasting his Wages with the Wages of an apprentice, might call his larger

income "rent of ability," if that flattered him; but his doing so, though it might enhance Economic confusion, would not alter the Economic relationship of Wages for Labor and Rent for Land. If Economic thinking is to be done with definite terminology instead of word-juggling, all compensation for human service must be expressed by a technical term different from the technical term for premiums for varying grades of Natural Resources. The accepted technical terms are Wages for Human service and Rent for Natural Resource advantages. Though "rent of ability" be picturesque in dramatics, it is farcical in Economics.

The importance to Economic study of assigning every item of Economic phenomena, Distributive as well as Productive, to its appropriate Economic category—Labor or Land in Production and Wages or Rent in Distribution—cannot be lightly ignored nor carelessly trifled with. Nor can it be too strongly emphasized. Without such assignments Economic phenomena are like printers' "pi"; so assigned, they may be studied with precision.

III. Trade

The Distribution of Wealth, as well as its Production, is effected through Trade. As in the Productive Process from the very beginning of Labor specialization up to the point of delivery to ultimate consumers, so in the process of Distribution, Trade is the continuous and the culminating agency. It determines the kind of Wealth and the quantity that each factor in Production shall receive.

We have seen that Labor as a whole, a social unit, produces Wealth from Land and that this activity and this result are governed by natural Economic law —by natural relations of Economic effect to Economic

cause. We have seen also that a correlative natural law, a correlative connection of effect to cause, constantly allocates one portion of the total Product to the Labor factor and another portion to the Land factor. We may readily see, moreover, that those two primary allocations subdivide into almost infinitesimal and extremely confusing secondary categories, comprising every variety of Labor, every variety of Land, every variety of Wealth, every variety of Economic desire. It is to satisfy those desires out of that continuous flow of Wealth that the infinitude of processes indicated in the next preceding Lesson enter into the comprehensive Productive Process which includes delivery to ultimate consumers, and that an infinitude of corresponding processes enter into Distribution.

Many of those processes overlap, playing now a part in Production and now in Distribution. Some of them are natural, some are customary, some are legalistic. But all are subject to the cooperation or to the obstruction of natural law as manifestly as is the navigation of a sailing vessel on the ocean. In so far as the customary or the legalistic do not conform to natural Economic law, natural penalizations inevitably result; in so far as they do conform to natural Economic law, the results are socially as well as individually beneficial. As with gravitation in the physical universe, so with its correspondent force in the Economic domain.

Not only, then, are the minute details of Labor specialization merged in Productive wholes and delivered in their completeness to ultimate consumers by means of Trade, as we learned in the next preceding Lesson, but, also by means of Trade, the two great divisions of Wealth (Wages and Rent) are assigned respectively to Labor interests and to Land interests in proportions determined by comparisons of Value.

Individual deliveries, in contrast with Distribution into the two basic categories, Wages and Rent, consist in the delivery of Wealth to individuals in proportion to the effective demands of each. Their demands are limitless, for when satisfied with quantity they naturally demand quality. But there is a limit to all effective demands. The limitation on the one hand is the producer's ability to produce, and on the other the consumer's ability to obtain in Trade. Ability to produce depends in high degree at any time upon the general productive knowledge of the time. Ability to obtain depends upon the Economic power in Trade of the individual seeking to gratify his wants. If he is isolated from all the rest of mankind, he is outside the Economic circle and can obtain only what he himself directly produces. If he is one of an absolutely free community, he can obtain what others are willing to give him in Trade for the service he renders directly or indirectly to them. If Production be arbitrarily obstructed, whether by impediments to Natural Resources or to Trade, his ability to obtain Wealth is not so much according to what he produces or to the service of any other kind that he renders, but according to his command over the sources of Production and the channels of Trade whereby he may levy tribute or escape it.

As human services naturally tend to exchange at par for equally desirable human services, so do different forms of Wealth, each product of human service, tend to exchange at par for equally desirable forms of Wealth; and as Wealth in the Rent category and Wealth in the Wages category are alike service-products of Labor applied to Land, exchanges of every kind of Wealth tend to be effected on the basis of equality in the expenditure of Labor for their Production.

Let it now be carefully observed and faithfully remembered in this connection, that however various the kind and the amount of Wealth that individuals receive, each variety is but a subdivision of Wealth as a whole, and is therefore either Wages or Rent, those being the two primary divisions of Wealth in Distribution. A "captain of industry" may get a large share of Wealth for his service while a skilled laborer gets a small share for his; but each will take his share from Wages, not from Rent. On the other hand, the owner of a rich mining opportunity may get a large share of Wealth and the owner of a small area of farming land or a village building-lot may get a small share; but each will in that respect get Rent, not Wages. To the extent, however, that the "captain of industry" derives any part of his income from Natural-Resource privileges, that part is Rent; and to the extent that the mine owner or the farm owner or the village lot owner derives any part of his from his service, that part is Wages.

Thus the factor in Production technically termed Land is represented in Distribution by the Wealth element technically termed Rent; whereas the factor in Production technically termed Labor is represented in Distribution by the Wealth element technically termed Wages.

IV. Money

All allocations of Wealth, from the two primary ones—Wages and Rent—to the least of all that are secondary to either of those two, are made through Trade, and in the course of Trade are measured by comparisons of Value, which is the universal regulator of Trade. And as in Production so in Distribution, for Value measurements Money is the more or less stable yardstick and Money terms the spokesmen.

Would we know the Value of Wealth in any of its distributive allotments, we must look for it in terms of Money. Would we know the Value of any of the various kinds and degrees of Labor that have produced it, Money terms offer us the only language we can use or understand. Would we know the Value of any of the various kinds and degrees of Land from which and upon which such Wealth has been produced by Labor—whether identified by the term Rent as in Economics or by such colloquial or business terms as "groundrent," or "selling price,"—Money is our sole interpreter, defective though it be. Would we place any or all of this information on record, we must do so in terms of Money.

What, then, is Money—this prestidigitateur of both Production and Distribution? Is it coin? Is it a promise to pay? Is it a fiat of Value? Is it a magic signal?

Before considering whether or not it is coin, let us think of how slightly coin is used in Trade. Before suggesting promises to pay, let us reflect upon the variability and questionability of promises. Before falling back upon "fiat," let us know somewhat of the wisdom and responsibility behind the "fiat."

If we probe deep, as in these Lessons we have tried to do, shall we not find that the only level of Value is the Labor level?

Not Labor time. That varies in Value with individuals. But Labor service or product. And do not the market prices of stable Labor products come as near to the Value level as may be necessary for all the purposes of Trade relations?

An absolute level of Value is doubtless as far beyond the possibilities as an absolute sea level. But as we adopt a "mean level" of the sea, why not a "mean level" of Value? And why not express the re-

lations of this level in terms of Money properly stabilized?

The most conspicuous method yet suggested for realizing such a Value level takes the specific form of a proposal to determine Money standards by frequent comparisons with the Price level of simple types of Wealth. Resting nominally upon the Value in Trade of such staples, this method rests fundamentally upon the Economic fact that Labor, as the continuous producer of all Wealth, is the real source and regulator at all times of all Values in the channels of Trade, and that Money is the measuring rod and its terms the language.

To go farther into this Economic field would necessitate a surface survey of Economic intricacies, and these pages aim only at clarifying fundamentals. Having returned from the Basic Facts, upon which all Economic details rest, to the Money surface with which it began, our common-sense primer for advanced students is at the end of its task.

SEVENTH LESSON

REVIEW

THE science of Economics, having now been traced from its surface to its three Basic Facts and back to the surface, let us, for the purpose of bringing the whole subject compactly within its narrowest limits, retrace our steps briskly but thoughtfully by way of review.

Economic accomplishments are measured by Money standards and expressed in Money terms. Resting on the surface, those standards and terms spread over the whole Economic area.

Beneath that surface we first find Trade, for which Money is the medium or the means of expressing relative values and adjusting balances. Trade consists essentially in interchanges of commodities, inclusive of natural resources and of human service. It is not an arbitrary custom or set of customs, but a phenomenon of natural law through which artificial objects are produced to completion and final delivery. But Trade, though lying beneath the Money surface of Economics, is not a basic fact of that science.

Only by piercing through the Trade surface as well as the Money surface, can the bottom level of the Basic Facts of Economics be reached. Those facts consist of distinct categories which comprehend in generalized forms the myriads of miscellaneous facts with which the Science of Economics is concerned.

Of those categories or Basic Facts there are in number neither more nor less than three—Man, Natural Resources, Artificial Objects.

All Artificial Objects are produced by Man from and upon Natural Resources. The technical term for

the activities of Man in that connection is *Labor*; for Natural Resources, *Land*; and for Artificial Objects, *Wealth*. In technical Economic terms, therefore, all Wealth is produced from and upon Land by Labor.

Many colloquial and business subdivisions of those three categories may be useful provided they be not mixed in their meanings.

One of those subdivisions is Capital, which, in its technical meaning, is distinctively a part of Wealth produced by Labor from and upon Land. It is, however, often used loosely to include Land, the technical term for Natural Resources. Even slaves, and by Economic as well as by private business classification, have been placed in the subcategory called Capital, a form of Wealth; and this notwithstanding that as units of the human factor, slaves belong in the Labor category of Economics. Although such loose distinctions may be of use in private business accountings, they are intolerable in the science of Economics, which, like every other science, demands precision in the differentiation of terms.

The application of Man's powers of body and mind to Natural Resources for the production of Artificial Objects—of Labor to Land for the production of Wealth—is the Productive Process in Economics. It involves such subcategories as business enterprise, professional service, invention, hired-man work—in a word, every grade of useful activity. These subcategories are developed by industrial specialization, or, in technical Economic terms, Division of Labor, which necessitates another subcategory. This is Trade.

Without Trade, products of Labor specialization would remain forever useless; but through Trade the most minute and incomplete of those products is brought to its useful place in the aggregate of Wealth —ploughshares to ploughframes, for instance, or ore

to the steel of the factory, or wallpaper to the interior of the house.

The Productive Process though intricate through specialization and Trade, is readily observable by generalization into the three major categories, Labor and Land and Wealth. In observing that Process care must be taken to distinguish delivery from Distribution. Delivery is part of the Productive Process. No Wealth is completely produced until it has been delivered to ultimate consumers. But Distribution has to do with Wealth apportionment.

In apportionment, or Distribution, there are two major categories, Wages and Rent, corresponding respectively to the two Production categories, Labor and Land. A minor Distributive category, corresponding to the minor category in Production called Capital, is distinguished as Interest. This term identifies the earnings of Capital. Inasmuch, however, as Capital is part of Labor-produced Wealth, Interest must be a subdivision of Labor-earned Wages.

The Wages category in Distribution comprises, fundamentally, all that part of Labor-produced Wealth which is not allocated by natural Economic law to Rent for permission to use Land. This allocation is determined by the greater desirability of some Natural-Resource locations (Land) over the most desirable that may be had for the taking—of those at the "Margin of Production" as it is technically called, the "margin of cultivation" as it was called when agricultural areas alone were thought of as Land, at the Economic frontier as it may be most significantly described.

All assignments of Wealth in Distribution being determined by comparisons of desirability of service (Value measured in terms of Money), we find ourselves at the close of our brief review back at the

Money surface of Economics where we began our delving expedition down to the Basic Facts.

As a result of that expedition we know, if we think with clarity and fidelity, that Economics is the science, not of making Money, but of Producing and Distributing Artificial Objects from and upon Natural Resources by Man. The usefulness of our expedition depends upon our grasp of and fidelity to the generalization of all Economic facts into those Basic Facts which are respectively distinguished in Economic terminology as Land, Labor and Wealth.

Questions for Self-Examination

I

1.—Name the three Basic Facts of Economics as described in the foregoing pages.

2.—Define them as there defined.

3.—In your judgment are there any others? If so, name and define them.

II

1.—What is Money as defined in the foregoing pages?

2.—How would you define it?

III

1.—What is Trade as defined in the foregoing pages?

2.—How would you define it?

IV

1.—What are the Basic Facts of Economics as in this book explained?

2.—Comment upon that explanation, and give your own.

V

1.—Describe the Productive Process as explained in the foregoing pages.

2.—Describe it as in your judgment it ought to be described.

VI

1.—Describe the Distributive Process as explained in the foregoing pages.

2.—Describe it as you think it ought to be described.

VII

1.—Review the Primer briefly but considerately throughout.

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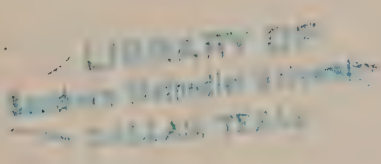

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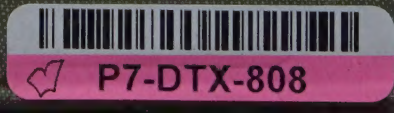
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